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Electronic markets: City of London draws a line, Page 14

World news

Tripoli quiet as Syrians move in

Syrian troops and tanks have entered Tripoli as warring militias handed over heavy weapons under a ceasefire ending three weeks of fighting.

Four battalions of Syrian troops deployed in several areas of the port city when Moslem fundamentalists and rival left-wingers began handing over their big guns at Syrian-controlled depots.

The Syrians are expected to take up positions throughout the city but eyewitnesses said the troops were having difficulty penetrating the fundamentalists' bastion in the Abu Samra area, scene of some of the fiercest fighting. Page 3

Raid protest

Hundreds of thousands of people demonstrated in Baghdad and other Iraqi towns to protest against the Israeli raid on the headquarters of the Palestine Liberation Organisation in Tunis last Tuesday.

Parties close ranks

Belgium's two Social Christian parties have closed ranks in advance of next Sunday's general election with a pledge not to join the Socialists in a coalition government.

Farm aid appeal

France's Agriculture Minister Henri Nallet has announced emergency measures to aid farmers in the country, hit by the worst drought for nearly 10 years, and appealed to EEC partners for help.

Tutu on violence

Desmond Tutu, Anglican Bishop of Johannesburg, said in London he was close to endorsing violence to overthrow South Africa's white minority Government.

Banker summoned

Dr Enrico Cuccia, 77-year-old former chairman of Mediobanca, the Milan merchant bank, has been summonsed to appear before a Rome magistrate to discuss allegations of his involvement in misappropriation of funds from Italy's IRI state holding company. Page 2

Israel reviews ties

Israel is reviewing its relations with Egypt after the weekend murder on the Sinai coast of seven Israeli tourists, including four children. Page 3

23 die in rail crash

At least 23 people were killed and 54 injured when a train slammed into a bus at a level crossing in Gauhati, capital of Assam state in north-east India.

E. German flees

A 44-year-old East German man fled across the Baltic Sea in a rubber dinghy to West Germany.

Mexico rescue ends

Exhausted rescue workers in Mexico City have abandoned their bid to save a 9-year-old boy now thought to have died in the ruins of his family's home since an earthquake 17 days ago.

Art raid

Thieves broke into Rome's Capitoline museums, which house the world's oldest collection of sculptures, and stole two late 17th century oil paintings valued at around L60m ($34,000).

Alfonsin-Steel talks

President Raul Alfonsin of Argentina and British Liberal Party leader David Steel have agreed on the need to resume talks on the Falkland Islands dispute. Page 2

Rainbow Quest's Arc

Prix de l'Arc de Triomphe at Longchamp, Paris, was won by British horse Rainbow Quest. It finished a neck behind odds-on favourite French horse Sagace, but jockey Pat Eddery successfully objected on the ground of interference by Sagace.

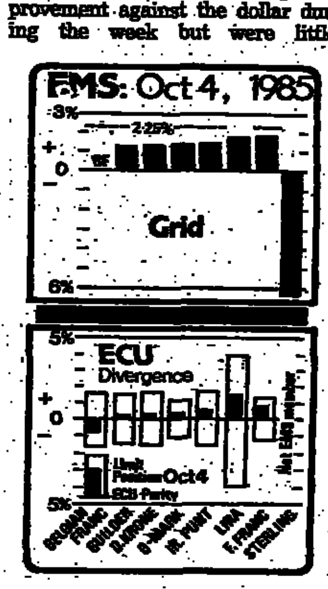
Business summary

Oil stocks at lowest level for 9 years

WESTERN world's oil stocks are at their lowest winter level since 1976, the International Energy Agency said in its monthly oil report. Page 16

TOKYO share prices rose on Saturday, with interest focusing on biotechnology-related issues. The Nikkei Dow index rose 36.83 to 12,750.86.

EUROPEAN Monetary System: Currencies showed a sharp improvement against the dollar during the week but were little



changed in value as measured in terms of the European Currency Unit.

Weaker members such as the Belgian franc received support through central bank intervention with the Belgian authorities spending the equivalent of BFr 14.3bn according to the latest available figures, which covered the week up to September 30.

Speculation continued over the possibility of sterling's full participation in the system although the timing of such a move and sterling's value at its point of entry failed to attract any consensus.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

FRENCH banks and stockbrokers are to be allowed to carry out jobbing functions on the French securities market under an agreement to boost liquidity in Paris stocks and bond trading.

EUROBOND investors have shown a surge of enthusiasm for floaters, with issues last week in dollars, sterling, yen and D-Marks all meeting good receptions. Page 17

UK SALES of commercial vehicles rose by 27.44 per cent in September compared with the same month last year. Sales totalled 25,405 against 19,935 previously. Page 8

AMERICAN Telephone & Telegraph (AT&T), U.S. long-distance telephone company, has been given the go-ahead by the Federal Communications Commission (FCC) to offer a wide range of discount services. Page 19

MONTEDISON, Italian chemicals, health care and energy group, is holding talks with ENI, the state energy group, about a sale of petrochemical assets to Enichimica, a subsidiary of ENI. Page 19

BRITISH SUGAR, UK beet sugar monopoly, said it would be condemned to stagnation if it does not win a big EEC production quota next year. Page 8

FAG, Kugelfischer Georg Schafer, family-controlled West German concern and one of Europe's top bearings manufacturers, is planning its first-ever public share issue later this month. A nominal DM 80m ($30.7m) of the company's basic capital will be made available in the form of bearer shares with voting rights. Page 17

UK's Central Electricity Generating Board has rebuilt its coal stocks to near the levels before the year-long miner's strike of 1984-85. Page 7

Cautious welcome for U.S. plan on Third World debt

BY JUREK MARTIN AND STEWART FLEMING IN SEOUL

MR JAMES BAKER, U.S. Treasury Secretary, is set tomorrow to unveil a package tailored to make more funds available to the most heavily indebted developing countries.

Among the measures, Mr Baker will signal U.S. acceptance of the need for a general capital increase for the World Bank and the provision, on a case-by-case basis, of World Bank guarantees for commercial bank lending in an effort to supplement increased official financial flows.

However, ministers convening for the annual meetings of the World Bank and the International Monetary Fund (IMF) fear that the U.S. initiative, while broadly welcome, may do little in practice to address the deteriorating debt situation, especially in Latin America, given the uncertain prospects for the global economy.

Among others, British officials pointed out that the U.S. was coming under increasing pressure from the other leading industrialised nations to take decisive action to cut its budget deficit – still running at annual rates of $200bn. Not least because of the continuing high level of U.S. interest rates.

In particular, there is a genuine fear that the New York agreement of September 22 to drive down the value of the dollar could be undermined by the failure of the U.S. to tackle the fundamental economic imbalances in its economy.

British officials said that improvement of exchange rates and the balance of payments would not help if the fundamentals remained "out of kilter. We are all worried that in the last resort if they do not get a sensible and timely solution (to the deficit) there are only two alternatives – recession or inflation."

The broad outlines of the U.S. plan to revise the debt strategy as outlined by Mr Baker to the IMF's Interim Committee yesterday are:

- "The adoption by principal debtor countries of comprehensive macro-economic and structural policies supported by the international financial institutions to promote growth and balance of payments adjustments and to reduce inflation;
- "A continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks, both in support of the adoption by principal debtors of market-oriented policies for growth;
- "Increased lending by the private banks in support of comprehensive economic adjustment programmes.

Officials say that the U.S. is hoping to halt the decline in commercial bank lending to developing countries and generate about $20bn-$30bn of net new private loans to Third World countries over the next three years. Among commercial bankers, however, there is still great reluctance to lend more money and profound scepticism about how such a plan could be implemented.

The World Bank's enhanced role will include an effort to try and double to $20bn its lending in Latin America over this period.

Governments are also expected to endorse a U.S. plan to increase lending to the poorest countries, such as those in sub-Saharan Africa, through a $5bn joint World Bank-IMF funding package which involves in part re-directing repayments to the $2.7bn IMF Trust Fund to these countries.

Behind the modifications of the strategy for tackling the debt problem lies the recognition, officials say, that dependence on IMF adjustment, or austerity programmes, is not enough.

As Mr Baker indicated in his statement, the aim is to try and move to a more growth-orientated

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IMF annual meeting, Page 4; Editorial comment, Page 14

Waiting for Godot in Seoul

SAMUEL BECKETT should have been in Seoul this weekend. Far from merely having two beggars under a lampost waiting for Godot, he would surely have been inspired by the sight of hundreds of international financial luminaries doing little more than hanging around the elegant halls of the Hilton Hotel waiting for a gentleman from Texas by the name of James Baker, writes Jurek Martin in Seoul.

Unlike Godot, the U.S. Treasury Secretary made it. Humbler literary talents than Beckett were grateful for this because before he arrived their notebooks had been singularly devoid of the pithy quotes and epigrams that normally flow like wine (or, in Korea, OB beer) before the annual International Monetary Fund – World Bank extravaganza.

The real problem was that very few knew in advance what Mr Baker had up his sleeve, and those few who did were not telling. The British, who apparently had been briefed, smiled knowingly and said it was "ingenious." The Argentinians, less fortunate perhaps, thought the U.S. still had "only very general ideas." The Japanese were deliciously opaque.

Not that there was a shortage of cliches. One of the better ones was that Mr Baker was going to propose a "broad-gauged approach," which, to some, suggested an artful recognition that the global debt problem was at least on a par with the deficits of the Brazilian and Japanese railway systems.

Some key individuals appeared totally discombobulated. Mr A. W. Clausen, whose future as World Bank president hangs on Mr Baker's word, was reported to have discarded the uplifting Jeffersonian ending to his address tomorrow and to be toying instead with a Johnsonian conclusion (rumours that he was studying LBJ's famous TV abdication on videotape were, however, denied).

Mr Jacques de Larosiere, the IMF's managing director, even mislaid the Treasury Secretary on Saturday night. At least that appeared to be the case when he strode purposefully into the wrong room of a Chinese restaurant, in which indeed the Group of Five finance ministers were meeting, only to be confronted by a roomful of Japanese. "We are always very pleased to see Mr de Larosiere, even if only briefly," one of the Japanese happily observed.

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Thatcher will try to dispel policy doubts

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MRS Margaret Thatcher, the British Prime Minister, will this week seek to regain the political initiative for the Government by setting out its major policy objectives for the rest of the decade and into a third term in office.

She will give the usual closing address on Friday to the Conservative Party conference which opens tomorrow in Blackpool amid unprecedented security precautions following the bombing at the Brighton conference a year ago.

Mr Norman Tebbit, the new Conservative Party chairman, said yesterday that the electorate was no longer quite sure of the Government's long-term aims and of where current policies were going to lead in 10 years.

After the achievements of the past six years, he said, people were uncertain of the Government's future direction and did not see that "we have that thrust of reforming radicalism we had in 1979." He said there was no question of "going quiet."

Mrs Thatcher will seek to answer these doubts on Friday while Mr Tebbit, who is assured of a very warm welcome after his and his wife's ordeals in the Brighton bombing, will attack the opposition parties during his chairman's report tomorrow.

Mr Tebbit said he intends to focus on divisions within the Social Democratic/Liberal Alliance and to try to brand social democrat leaders as left-wing by quoting what they said as Labour ministers in the late 1970s. He will also attempt to puncture Labour's revival. After praising Mr Neil Kinnock's "extremely good speech" at the Labour Party conference last week he said the Labour leader had not carried the major conference votes.

Party managers face the embarrassment that considerable attention may be devoted in the mass circulation daily newspapers and by television to the imminent memoirs of Miss Sara Keays, the former mistress of Mr Cecil Parkinson. Her revelations about their relationship forced his resignation as Trade and Industry Secretary two years ago.

Mr Tebbit yesterday angrily dismissed the diaries as "trivia and

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Paribas poised to control UK broker

BY JOHN MOORE IN LONDON

PARIBAS, the French state-owned banking group, is poised to take control of Quilter Goodison, a leading London stockbroker which is headed by Sir Nicholas Goodison, chairman of the London Stock Exchange.

The move will represent the second important deal that Quilter Goodison has been involved in since the start of the upheaval in London's financial community more than two years ago. The deal with Paribas is expected to be concluded in two months.

Last year, Quilter Goodison forged a link with Scandia, the Swedish insurance group, which acquired a 29.9 per cent stake in the firm for an undisclosed price.

Since then there has been speculation that Quilter Goodison has been looking for another partner in an effort to find more capital, which is needed for its participation in the remodelled British securities market.

Sir Nicholas and the senior management at Quilter Goodison have decided that they need a substantial banking interest behind them for the future operation of the firm which is prepared to take full control. Quilter Goodison is understood to have been nervous about the backing some of its competitors were to receive following their linkups with banking interests in the UK.

Scandia is understood to be prevented from increasing its stake further in Quilter Goodison under Swedish law, which prevents insurance groups from holding controlling interests in non-insurance concerns.

In the proposed deal with Paribas, the first significant deal carried out by French interests in the financial services revolution in London, the French bank would acquire Scandia's existing shareholding. As an outside group, under stock exchange rules, Paribas would be allowed to increase its stake to 100 per cent next March.

Mr John Davies, of Quilter Goodison, said yesterday: "I can confirm that discussions are taking place which will lead to Paribas taking 100 per cent control."

Democrats back Reagan goal on balanced budget

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

DEMOCRATIC Congressional leaders have accepted the goal of balancing the U.S. budget by 1991, as laid down in a new deficit-cutting scheme endorsed by President Ronald Reagan on Friday.

The Democrats, however, were yesterday still strongly resisting a Republican bid to hustle the plan through the Senate as an amendment to urgently-needed legislation raising the national debt ceiling to over $2 trillion (million million) for the first time. The Government will technically run out of funds today if the measure is not passed.

With the Senate meeting in an unusual Sunday session yesterday, Senator Robert Byrd, the Democratic minority leader, said that the Democrats had no doubt about the need for legislation to mandate a balanced budget. "It's not a question of if or whether but how," he said.

Mr Byrd insisted, however, that the Democrats were not prepared "to buy a pig in a poke with a cocked pistol at our heads". The Democrats said that they must have more time to examine the detailed implications of the plan, which would mandate fixed annual reductions in the deficit until it disappeared in fiscal 1991, which begins in October 1990.

Senate Republicans, however, were yesterday determined to use the debt ceiling deadline to bring the plan to an early vote. The Treasury has warned that the Government will run out of borrowing authority today and have to stop paying some of its bills if the debt ceiling is not raised.

Senator Robert Dole, the majority leader, was yesterday still resisting a Democratic proposal for a brief stop-gap debt limit extension to allow more time for debating the budget plan. He warned that he was ready for a showdown on the vote, even if it meant a few days of financial disruption for the Government.

"The Government won't come to a halt but it may slow down a bit," Mr Dole said. "My view is if the stakes are high enough, you may have to put up with it for a while."

The plan, as approved by Mr Reagan, is now sponsored by more than 40 of the 100 senators, including some Democrats. It calls for annual reductions of about $36bn in the deficit, estimated at $180bn in the current fiscal 1986 budget year.

The legislation would bar the President from proposing, and Congress from debating, budgets that exceed the prescribed limits. If projections subsequently showed that the limits were about to be breached, the President would automatically order across-the-board spending cuts, excluding social security, unless Congress came up with alternative measures to bridge the gap.

While accepting the goal of a balanced budget, the Democrats are deeply suspicious that the plan as it now stands will lead to further radical cuts in domestic spending and social programmes.

Senator Gary Hart of Colorado, a strong critic of the scheme, warned over the weekend that "few senators, including sponsors of the measure, really know what they're doing."

SCM buyout plan likely to fail as Hanson increases stake

BY TERRY DODSWORTH IN NEW YORK

THE BATTLE for control of SCM, the U.S. conglomerate, is moving into a critical phase this week after a flurry of share buying by Hanson Trust, the UK industrial group which launched a takeover bid for the New York concern in late August.

Hanson's latest share acquisitions, noted in a filing with the Securities and Exchange Commission, have jockeyed the UK company into a position to throw up a strong barrier against SCM's $906.5m management buyout proposals.

The UK group now has 32.1 per cent of SCM, making it virtually certain that the consortium of SCM directors and Merrill Lynch, the New York securities firm which is backing the buyout, will not be able to effect a merger as planned.

Under New York state law mergers have to be approved by a two-thirds majority of shareholders, and lawyers say that Hanson's current holding will be sufficient to prevent the full two thirds from being voted for the SCM offer of $74 a share. SCM's shares closed $¾ down on Friday at $72⅝.

The tug-of-war over SCM has in the last few weeks become a highly technical matter, as Hanson first lost a court action over aggressive share buying tactics and later won an appeal. The main issue now, however, is whether the SCM consortium will try to negotiate a settlement with the UK company so that the proposed deal can go ahead.

Mr Robert Pirie, president of Rothschild Inc, Hanson's investment banker in the U.S., said at the weekend that no talks had as yet occurred between the two sides. But some Wall Street analysts are expecting movement towards discussions this week as the buyout tender offer runs towards expiry on Friday.

Hanson itself is inhibited from doing more than adopting its present spoiling role by a so-called "crown-jewels" clause in the agreement between SCM and Merrill. This says that the investment bank will be allowed to acquire two of the New York company's most prized assets at favourable prices if any share-holder buys more than 33 per cent of the group.

On the management buyout side, however, investment bankers say that Merrill Lynch may now have a problem in concluding the tender offer, because of its heavy financing costs.

Without concluding a merger, which would give it the right to buy out minority shareholders, the management consortium would not find it easy to dispose of any of SCM's assets. Yet some disposals are likely to be required to pay part of the debt involved in the deal.

Some bankers close to the bid battle have argued that Hanson is also faced with heavy financing costs on its 32 per cent stake.

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EUROPEAN NEWS

Alfonsin moves to isolate Thatcher

BY TOM BURNS IN MADRID

THE ATTEMPT by President Raul Alfonsin of Argentina to isolate Mrs Margaret Thatcher on the Falklands issue by winning the British public over to a negotiating process took a further step forward yesterday after he held talks in Madrid with Liberal leader Mr David Steel.

A joint comminique issued after the meeting said that President Alfonsin and Mr Steel had agreed that "as an integral part of the dispute there should be a formal cessation of hosilities and the lifting of the protection zone, the re-establishment of diplomatic and commercial relations and the re-opening of negotiations on all aspects of the future of the Falkland Islands, including sovereignty."

The communique said preparations for the negotiations should be "undertaken simultaneously by the two governments without delay."

Two weeks ago Argentina's President and Mr Neil Kinnock, the Labour Party leader, issued a joint communique which also called for negotiations.

The Madrid communique avoided using two key loaded words. It made no mention of the "wishes" of the Falkland islanders—which Mrs Thatcher says are paramount—nor of the "interests" of the islanders which, much to Whitehall's irritation, was the term agreed in the statement with Mr Kinonck.

Instead yesterday's communique said that Sr Alfonsin and Mr Steel "stressed the importance of guaranteeing effectively for the islanders the preservation of their way of life." This new diplomatic formula was hammered out at a three hour meeting held by Mr Steel with Sr Jorge Sabato, Argentina's Secretary of State for international relations, prior to the talks.

Mr Steel's strong commitment to negotiations appeared to be based on his personal admiration for Sr Alfonsin and his belief that both the consolidation of democracy in Argentina and the long-term future of the islanders could only be assured by what he termed a "retreat from the Fortress Falklands mentality."

The Liberal leader said later that the preservation of the islanders way of life would be guaranteed effectively by an international agency supervising a bilateral agreement.

Mr Steel said that he had found common ground during his "friendly and positive" discussions with Sr Alfonsin. "Democracy would not have come to Argentina without the courage and sacrifice of our forces and without the courage and sacrifice of Sr Alfonsin and his supporters," he said.

Portuguese voters flock to polls

BY DIANA SMITH IN LISBON

PORTUGAL's highly conscientious voters came out in droves on a brilliantly sunny Sunday in the second snap general election in a year.

Generally peaceful voting throughout the country was marred by noisy incidents in four small townships in the north who have traditionally made it difficult to carry out the election, because they protest against either borough status or city limits.

Turnout was heavy early in the day indicating that despite their disappointment with squabbling parties and constantly fragmenting coalitions, a sizeable proportion of the 8m voters stopped off on the way to or from mass, the beach or a Sunday meal with relatives—to cast their ballots.

Privately taken polls during the three week campaign suggested that at least 30 per cent of voters were undecided. There are 500,000 new voters this year, mostly 18-year-olds who were small children when the represive right-wing dictatorship which permitted only severely limited suffrage was overthrown in 1974.

Less interested in politics than their parents, who grew up in the shadow of a fierce political police that treated even moderate opposition to the regime as subversion, and who displayed a voracious appetite for politics after 1974, the young voters seemed less anxious than their elders to make a visit to the polling station their absolute priority on an election Sunday.

Older voters, however, with their usual combination of zeal and solemnity donned their best and filed as decorously into schools and colleges that served as polling stations as if they were entering church.

The rural population, often illiterate, is particularly conscientious about a civic duty first extended to it in 1975. Farmers and their wives often can only recognise the party of their choice by its symbol; the raised clenched fist of Sr Mario Soares' socialists, who took 36.3 per cent in 1983; two vertical arrows for the Social Democrats, 1983 runners up with 27 per cent; three linked circles for the Communists' United Popular Alliance which took 18 per cent in 1983; and two inverted arrows and a circle for the Christian Democrats who took 12 per cent in 1983.

This year voters in a country where suffrage is so universal that it covers four-fiths of the population, had another symbol to study, the scales of the Democratic Renewal Party (PRD), the maverick movement clustered around the outgoing head of state General Antonio Ramalho Eanes.

Pre-election polls hinted that the Socialists and Social Democrats might run neck and neck around 30 per cent while the PRD, probably stealing votes heavily from the Socialists, could reach 10 per cent.

A close result would mean another coalition government for Portugal, and, probably, more months of indecisive administration as the country painfully makes its way into European Community membership.

Italian banker summond by magistrate

BY ALAN FRIEDMAN IN MILAN

DR Enrico Cuccia, the 77-year-old ex-chairman and emience grise of Mediobanca, the Milan merchant bank, has been summoned to appear before a Rome magistrate to discuss allegations that he may have been involved in the misappropriation of funds from Italy's IRI state holding group.

The IRI "black funds" scandal is a long running investigation in which several former IRI officials have been implicated. Dr Cuccia, who is perhaps Italy's most influential banker, received a judicial warning some months ago informing him that he was under investigation in connection with the case.

Mediobanca, which is 57 per cent controlled by three IRI banks, is one of Italy's few genuine merchant banks. Dr Cuccia, who has close ties to the Italian financial establishment, has been involved in virtually every important corporate takeover since the war.

Dutch set to go ahead with cruise

By Laura Raun in Amsterdam

THE NETHERLANDS probably will go ahead and approve the deployment of U.S. cruise missiles on November 1 despite Soviet leader Mikhail Gorbachev's carefully timed announcement that the number of Soviet SS20 missiles had been cut.

Mr Ruud Lubbers, the Dutch Prime Minister, said over the weekend that "several tens" too many of the Soviet nuclear missiles remained in place for the Dutch to refuse the cruise and Pershing-2 missiles under the Cabinet's June 1, 1984 decision.

He described the chances as "small" that the total number of SS20's in both European and Asian Soviet Union would be reduced to the 378 necessary to halt Dutch deployment.

Mr Lubbers and parliamentary leaders hastened to add, however, that Mr Gorbachev's arms-control proposals announced last Thursday in Paris offered fresh hope that fewer Nato missiles ultimately would be stationed on Dutch soil.

The Cabinet's decision last year said that if the U.S. and the Soviet Union reached an arms limitation agreement, then the Netherlands would accept a proportionately smaller number of the medium-range missiles.

Mr Joop de Boer, defence specialist for the Christian Democrats, the senior partners in the ruling coalition, described Mr Gorbachev's speech as a 'constructive effort'

West Germany denies approving Saudi arms deal

BY RUPERT CORNWELL IN BONN

SPECULATION over a possible massive West German arms contract with Saudi Arabia has intensified here — at the embarrassing moment of the eve of an official visit to Israel by Herr Richard von Weizsäcker, the Federal President.

Government officials indicated last night that negotiations were in progress, but denied reports in *Der Spiegel* that full government approval had already been obtained for the transaction, worth a reported DM 9bn (£2.43bn) in all.

According to the latest issue of the magazine, the centrepiece of the deal would be the supply of a weapons factory to Saudi Arabia by a West German group led by Thyssen Rheinstahl Technik of Düsseldorf, a subsidiary of the Thyssen steel group. The plant, which would take around 10 years to complete, would produce primarily tank and howitzer shells.

The report, moreover, suggests that Saudi Arabia has dropped its longstanding desire to buy the highly sophisticated Leopard II battletank, produced by the Krauss Maffei concern. For years Israel has employed every effort to prevent Bonn from allowing such a deal, which it says could upset the precarious military balance in the Middle East.

Instead Riyadh would purchase U.S. and French tanks, with the intention of fitting them with Leopard turrents and cannon, manufactured under licence in Saudi Arabia.

As long ago as October 1983 Chancellor Helmut Kohl signalled his readiness, during a visit to Saudi Arabia, to permit an expansion of West German arms exports to the Kingdom. His attitude cast a shadow over a difficult trip to Israel three months later.

If confirmed, a direct deal with Bonn, which might be completed in 1987, would represent further proof of Saudi determination to strengthen its armed forces. Last month it signed a £3bn agreement with Britain for the purchase of 132 military aircraft, including 72 Tornados produced jointly by the UK, West Germany and Italy.

But so large an agreement would also constitute a relaxation of Bonn's hitherto very restrictive arms sales policies, especially in the Middle East. Another pointer in this direction is the current Far Eastern visit of Herr Manfred Wörner, the Defence Minister, explicitly aimed, among other things at strengthening West German military co-operation with South Korea, Thailand and Indonesia.

Israel reviews links with Egypt after Sinai murders

BY WALTER ELLIS IN TEL AVIV

ISRAEL IS reviewing its relations with Egypt following Saturday's murder on the coast of Sinai of seven Israeli tourists, including four children.

Egypt says the deaths were caused by a single, deranged policeman, but senior Israeli officials said yesterday that a soldier, or soldiers, could have been responsible. If they are proved right, Egypt will have violated the 1978 Camp David accords, which stipulate that only policemen with handguns are permitted to patrol the Sinai Coast, near Eilat.

A formal investigation has been launched by the Egyptians, but Israel has demanded a full report on all aspects of what took place, to be submitted to Jerusalem within 48 hours.

Jerusalem is angry that some victims were left lying for up to five hours before receiving medical attention.

Doctors in Israel say that several died from loss of blood and could have been saved if medical aid had been provided sooner.

The Egyptians did not appear to know what to do, according to Israeli witnesses. One officer was apparently shot dead when he tried to intervene, and others were concerned to keep onlookers away, even though children were lying wounded in the sand.

President Hosni Mubarak's message of condolence yesterday was received coldly by Mr Shimon Peres, the Israeli Prime Minister. Israel remains anxious to continue the peace process with Egypt but is irritated by Cairo's response.

Tunisians welcome UN condemnation of raid

BY FRANCIS GHILES IN TUNIS

THE CONDEMNATION of last Tuesday's Israeli raid against the headquarters of the PLO Tunis by the UN Security Council has given Tunisian leaders considerable satisfaction.

"Another victory for Bourguiba" ran the banner headline of the ruling Destour Socialist Party daily, L'Action, which quoted the president's personal satisfaction that the U.S. had changed their initial stance which justified the Israeli action.

The vindication of President Bourguiba's position has gone some way towards repairing the initial damage done by the U.S. reaction, at least among the leadership and many members of the middle class.

However, the older generation of Tunisians attaches far greater significance to the vote than younger people who are more cynical about U.S. attitudes to the Arabs.

The Prime Minister Mr Mohamed M'Zali declared that he was all the more happy at the outcome of the vote and the unanimous support for Tunisia coming from Western countries as Israel "pretends to represent Western values."

Some of the Palestinians killed during last week's raid were buried privately yesterday in Tunis. Mr Yassir Arafat, the chairman of the PLO, said: "President Reagan was probably expecting to send a bouquet of red roses for me today."

Tripoli ceasefire holds as Syrian tanks enter city

BY NORA BOUSTANY IN BEIRUT

SYRIAN TANKS entered the devastated north Lebanese port city of Tripoli yesterday as warring Islamic and Leftist fighters handed over heavy weapons under a truce agreement that halted three weeks of fierce combat.

There was still no trace of three missing Soviet embassy officials kidnapped by a self-styled Islamic fundamentalist organisation demanding that the Soviet Union pressure Syria into lifting the assault against Tripoli by its Leftist Lebanese allies.

The cease-fire raised hopes however that two Soviet diplomats and the Soviet Embassy doctor might be set free.

Moslem militias in control of West Beirut and Lebanese police continued their hunt for the kidnapped Soviets and the body of Mr William Buckley, a U.S. diplomat, whose execution was announced at midnight on Friday by the Islamic Jihad Organisation.

The Beirut branch of Khaled ben Al Walid's Moslem liberation organisation, which claimed to have seized the Soviets and murdered Mr Arkady Katkov, Soviet consular secretary, said last week it was ready to exchange the remaining three for an end to the hostilities in Tripoli.

Four battalions of Syrian troops were deployed in several areas of Tripoli early yesterday as fighters of the Islamic Unification Movement and rival leftist militias turned in their big guns to Syrian-controlled depots.

Iranian mediation and Syrian embarrassment at having its major arms supplier and ally, the Soviet Union, humiliated at the hands of underground groups in Lebanon, had accelerated efforts to produce a ceasefire.

The final agreement, however, appeared to have given the Syrians an edge over the Islamic Fundamentalist Union Militia, known as the Tawheed.

Arms plan a starting point, says McFarlane

By Reginald Dale in Washington

MR ROBERT McFARLANE, President Ronald Reagan's National Security Adviser, yesterday said that the Soviet Union's latest arms controls proposals were a "starting point" for negotiations—although he doubted whether even Moscow would regard them as an equitable basis for an arms agreement.

Two motives were behind the proposals, publicly outlined by Mr Mikhail Gorbachev, the Soviet leader, in Paris last week, Mr McFarlane said. These were to end Mr Reagan's Star Wars space defence programme, while leaving the equivalent Soviet programme intact, and to drive a wedge between Washington and its West European allies.

By insisting on a unbalanced 50 per cent cut in U.S. medium range weapons in Western Europe, as well as in U.S. strategic forces, Moscow was trying to force the U.S. "to choose whether we defend our allies or ourselves," Mr McFarlane said on NBC television. He conceded, however, that the proposal contained "elements of a very constructive beginning."

On the Middle East, Mr McFarlane expressed optimism that the peace initiative being conducted by King Hussein of Jordan had not been too badly disrupted by last week's Israeli raid on the Palestine Liberation Organisation's headquarters in Tunis.

He was confident that a new "milestone" in the efforts to bring Israel and the Arabs to the negotiating table would be past in the next month, but would not give any details.

Mr McFarlane confirmed reports that Mr Michael Deaver, the former White House deputy chief of staff and a close personal friend of Mrs Nancy Reagan, had been brought back to give advice on preparations for Mr Reagan's summit meeting with Mr Gorbachev in Geneva on November 19 and 20.

Antarctic Treaty countries meet

By Quentin Peel in Brussels

SIGNATORIES AND consultative members of the Antarctic Treaty meet in Brussels today for the first time in two years, faced with the conflicting demands of economic exploitation and protecting the environment.

The members, including all the major states involved in scientific research in the Antarctic, will also be trying to set up better ways of co-ordinating their work.

The meeting is expected to approve applications for consultative membership from both China and Uruguay, who have presented evidence of their own scientific efforts

The treaty, signed in 1959, has been strongly criticised in the United Nations as creating an exclusive club. However its members maintain that it has been successful in creating a balance between the environment and development, while remaining open to any applicants with a genuine interest.

Tutu fears end to non-violence

BISHOP Desmond Tutu warned that the time for peaceful resistance to the white minority government of South Africa may soon be drawing to a close, our foreign staff write.

In a television interview at the end of a visit to Britain, the black bishop of Johannesburg condemned the violence of the Pretoria government and of its opponents. But he said: "I am aware as a man of peace, not a pacifist, that there may come a time, and we are very, very close perhaps to that time, when we will have to say that the lesser of the two evils is to overthrow this unjust system."

The South African church leader said he did not know how long his non-violent campaign for change could hold the loyalty of young blacks.

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Singapore battles to beat recession

BY ALAIN CASS IN SINGAPORE

SINGAPORE is looking for ways in which to loosen government controls over its economy in a bid to propel itsel out of the present recession.

Among the options being considered, according to Mr Goh Chok Tong, the first Deputy Prime Minister, are a lowering of the corporate rate of taxation, privatisation of key industries, a more flexible wage bargaining system and a more extensive use of the state savings fund.

Singapore is in the throes of the worst recession in its history. Since 1973 Singapore's annual growth rate has only dipped below 7 per cent three times. This year it is expected to record very little or possibly no growth at all.

Mr Goh, widely regarded as Prime Minister Lee Kuan Yew's political heir, said in an interview that he expected the present recession to last for "one or two years."

"But we hope," he added "to start climbing upwards after that especially if we can attack the cost structure which makes us less competitive."

Singapore's deliberate policy of high wages, aimed at attracting higher technology, has been a major factor in pricing it out of world markets.

Mr Goh also admitted that some major investments by the Government in past years had, with hindsight, proved to be a mistake. These included petrochemicals and shipping.

"If the shipyards can't get together and find a solution to their problems then they may have to close down. So be it," he said.

According to Mr Goh among the measures being actively considered by the Government to make the economy more efficient and increase productivity are:

- Privatisation: "The decision has been taken to divest ourselves of a large chunk of shares in companies, such as Singapore Airlines, which are directly relevant to government."
- Prices: "Maybe we should move out of this area too. For example taxi fares. These are now decided by the Ministry of Communications. Now we feel the taxi drivers and operators should decide this themselves. There are other areas."
- Wages: Singapore presently has a central wage system which sets the level of increase for the whole economy. "We think the system should be much more flexible taking into account the profitability of individual companies."
- Bureaucracy: "We want to modify and eliminate some rules and regulations which stifle the entrepreneur."
- Taxes: The Government is considering a reduction in the present 40 per cent corporate tax rate to attract more investment from abroad.

The first deputy Prime Minister also confirmed that the Government was considering allowing investors in the state Central Provident Fund (CPF) savings scheme to invest directly out of the fund into shares or possibly gold.

Garcia acts to boost economy

BY ROBERT GRAHAM IN LIMA

PRESIDENT Alan Garcia has announced an extensive package of measures designed to stimulate Peru's depressed economy.

The measures include a cut in interest rates, a modest rise in real wages through suppression of taxes, a freezing of the official exchange rate against the dollar until the end of the year, an import ban on some 200 items and a selective relaxation of price controls.

In a sombre statement read out at a Press conference late on Saturday, Sr Garcia said the measures represented the second phase in his Government's programme of economic recovery. After 60 days in office, Sr Garcia claimed success in restoring confidence and bringing down inflation.

Since the end of July the Government has been operating under a tough austerity package that has included a wage and prices freeze. The inflation rate which was running at over 10 per cent a month when the 36-year-old president took office in July has been cut to 3.5 per cent.

The Government at first considered stimulating demand by increasing rural incomes but this was considered too slow a means of boosting the economy. By raising wages and salaries, cutting interest rates and introducing selective price increases the Government hopes it can quickly start using idle industrial capacity yet also hold down inflation.

Sr Garcia said wages would rise by 4 per cent with the suppression of a special tax paid jointly by employers and employees. Public sector workers would also have access to a Soles 1m (£51m) interest-free loan in their October-November wages, repayable over 15 months.

Interest rates will be cut from approximately 75 per cent to 45 per cent.

Until now the main burden of the prices-wage freeze has fallen on borrowers. Banks, financial institutions, insurance companies and larger industrial concerns (like mining companies) will be obliged to buy certificates of deposit equivalent to 40 per cent of their 1984 profits to mop up liquidity and further channel investment.

Import restrictions will essentially cover luxury items like domestic electrical goods, drinks, cigarettes and clothing. To maximise export earnings the existing official Sole-dollar rate of Soles 14,000 will be kept until year-end while the parallel rate will remain high to discourage dollar purchases.

Sr Garcia only committed himself to maintaining the freeze on utility prices and petroleum, thus implicitly conceding that there would be other price rises allowed.

Mexico City bid to rescue boy abandoned

EXHAUSTED rescue workers abandoned their attempts to save a schoolboy trapped in the ruins of his family's home since Mexico's earthquake 17 days ago, and bulldozers rumbled onto the site to clear the debris, Reuter reports from Mexico City.

Miners, foreign experts and paramedics had worked desperately for four days in the wreckage of the house where nine-year-old Luis Ramon Nafarrate, nicknamed Monchito, was believed to have survived for more than two weeks.

Hopes that he could be pulled out alive evaporated last night when the engineer in charge of the operation, Sr Julian Aved, said it was "completely improbable" that anyone remained alive under the mountains of rubble.

Hundreds of reporters and television crews had kept a round-the-clock vigil at the house

S. African doctor taken off duty in prisons

By Jim Jones in Johannesburg

DR WENDY ORR, the South African Government doctor who two weeks ago won a supreme court order restraining police from assaulting detainees at two Port Elizabeth police stations, has been told her duties will no longer include attending to prisoners according to a Sunday newspaper report.

Dr Orr has been reassigned to half-day community duties caring for residents of old age homes.

In September Dr Orr led evidence in the Porth Elizabeth supreme court that 153 detainees had been illegally assaulted by policemen between July 22 and September 16 and alleged that police had been "quite unrestrained in the abuses they inflicted."

Dr Orr testified that her superiors had shown scant concern over reports of alleged police assaults on detainees.

In a parallel development, two other South African doctors have said they are to examine the conduct of Dr Ivor Lang, the acting Port Elizabeth district surgeon, in the handling of alleged assaults on detainees.

Dr Lang was found guilty in July of improper conduct by the South African Medical and Dental Council, following an investigation into the death in 1977 of black consciousness leader Steve Biko.

- Medical tests show that Mr Nelson Mandela, the imprisoned black leader, does not have cancer, South Africa's department of prisoner services has announced. Mr Mandela underwent examination for cancer following earlier medical examinations had indicated that his enlarged prostate gland needed removing

IMF ANNUAL MEETING

Industrial countries sell $4bn since New York meeting

BY PETER MONTAGNON IN SEOUL

LEADING industrial countries have sold about $4bn (£2.86bn) in exchange markets since their decision in New York last month to step up intervention to depress the U.S. currency, according to senior central bankers here.

Estimates prepared for delegates at the International Monetary Fund meeting here show that as expected Japan has been the most active seller. In a hitherto unsuspected twist they also reveal heavy sales of dollars by the Bank of Italy which was not party to the agreement reached in New York's Plaza Hotel on September 22.

A breakdown of amounts sold between then and October 1 shows the Bank of Japan selling $1.3bn out of total intervention of $3.5bn. Italian sales during this period totalled some $1bn.

Sig Lamberto Dini, general manager of the Bank of Italy, declined to confirm the amount over the weekend but he said Italian intervention had been heavy, partly to offset a scramble for dollars from Italian borrowers taking advantage of the lower dollar to repay short term debt. There was also a general market worry that a decline in the dollar would weaken the lira in relation to other European currencies and strain the European Monetary System.

Estimates produced by central banks of the Group of Five leading countries which were party to the agreement, show that in the period up to October 1 France was the next highest seller of dollars after Japan and Italy, with a total of $400m.

The U.S. sold $300m, West Germany $250m, and the UK less than $200m. Total intervention since the start of October has dwindled to around $500m as the U.S. currency found a new and lower level.

Results of the action had been "very satisfying up to now," said Herr Karl-Otto Poehl, president of West Germany's Bundesbank. He told reporters over the weekend that the D-mark was in a range West Germany considered appropriate. British officials said the success so far of the operation was due to decisive Japanese action in the week following the agreement.

Although some central bankers feel there is room for more appreciation of the yen, they are also warning that intervention must be treated with caution for fear of producing a dangerous and unstoppable slide in the U.S. dollar.

Yugoslavia set to request multi-year rescheduling

BY PETER MONTAGNON

YUGOSLAVIA is to seek a multi-year rescheduling from government creditors covering some $1.4bn (£1bn) of debt falling due between next year and 1988, officials said here.

This will follow final agreement on a similar rescheduling deal with commercial bank creditors for which terms were settled last month.

Discussions with government creditors should start early next year under the auspicies of the Swiss Government which has co-ordinated previous official rescheduling exercises for Yugoslavia.

Agreement on a multi-year rescheduling would mark a breakthrough for Yugoslavia which was refused a similar request earlier this year on the grounds that it had made insufficient progress in adjusting its economy. Government creditors simply agreed to refinance debt maturing up to May 1986.

Now, the officials attending the IMF annual meeting here, said the commercial bank agreement should pave the way for a change of heart from official creditors. The only multi-year rescheduling agreed by governments to date has been for Ecuador although such reschedule in 1986 with an instalpart of the officially approved case-by-case approach to the debt problem.

Yugoslavia will not be seeking any formal commitments from governments for fresh loans next year, but it hopes to raise some money on a voluntary basis from banks.

World Bank warns on debt role

By Peter Montagnon

A LARGER role for the World Bank in dealing with the deveolping country debt problem does not mean it stands ready to bail out commercial banks, Mr Eugene Rotberg, Treasurer, said here yesterday.

The bank would never be "so cute or so naive" to guarantee commercial bank loans to developing countries unless the banks themselves were willing substanally to increase their exposure, he told a bankers' lunch. "We will not use our resources to provide a comfort for those who would like to restrain their lending," he said. "We don't have the capacity or the power to take on the risks of the world financial system."

This would be to expect the World Bank to take over the excessive lending habits of commercial banks in the 1970s which would undermine its ability to raise funds on the international capital markets.

"Balance of payments lending unaccompanied by strictly verifiable medium and long term development programmes and without increasing commercial bank lending is not on the cards," he said. Commercial banks should be prepared to lend new money at least in amounts approaching the interest payments they receive.

Provided it had sufficient capital, the World Bank was ready to make net financial transfers of money totalling $33bn over the next five years, giving it a 20 to 40 per cent share in flows to developing countries. "We need only the legal right to lend more."

Mr Rotberg said the special skill of the World Bank lay in its ability to provide "quality lending supported by quality development advice."

If properly used, this skill could increase the comfort level of private financial institutions and that might persuade commercial banks to lend more on their own account.

The issue is whether governments wish to provide increased capital, the vast bulk of which would be at no monetary cost, he added.

IMF chief 'pessimistic on economy'

BY STEWART FLEMING IN SEOUL

MR Jacques de Larosiere, managing director of the International Monetary Fund, is taking a more pessimistic view of the outlook for the world economy than most of the major industrial countries, according to British officials here.

The officials do not accept that a worldwide recession is looming, the gloomy prognosis which many developing countries accept.

The depth of concern about the economic outlook for developing countries is underlined by the International Monetary Fund (IMF) in its latest World Economic Outlook, the summary chapter of which was published yesterday.

In spite of a much sharper slowdown in the 1985 growth of industrial countries than had been expected, the IMF is projecting that real expansion next year will recover a little to 3.1 per cent but it emphasises the "downside risks" to this projection and stresses that "considerable uncertainty" surrounds the assumptions upon which it is based.

The IMF is clearly growing more concerned about the rising current account and budget imbalances in the industrial world which it views as "unsustainable" and especially "worrisome (because) the means for correcting such imbalances are unclear."

It says that it is expecting the U.S. current account deficit to surge from $135bn (£96bn) in 1985 to $148bn in 1986, a year which will see a Japanese current surplus of $55bn and a West German surplus of $16bn.

The IMF is not expecting, however, that the continued deterioration in the U.S. current account deficit will lead to a further slowdown in growth. One the contrary it is projecting a 3.5 per cent U.S. growth in the second half of 1985 after a rise of 1.5 per cent in the first half of the year and expansion of 3.3 per cent in 1986.

For Japan, which has been under pressure to stimulate domestic demand, the IMF is projecting a slowdown in real growth from 4½ per cent in 1985 to 4 per cent in 1986 as export demand weakens.

In West Germany some acceleration in GMP expansion is projected—from 2 per cent in 1985 to 3 per cent in 1986. It is understood that the IMF has dropped heavy hints in a letter to the West German authorities that more should be done to stimulate domestic demand at the first sign of any unexpected sluggishness.

Growth in the UK is expected by the IMF to slow to 2.2 per cent in real terms next year from 3.2 per cent in 1985.

But it is the outlook for the developing countries and therefore for the international debt problem seems to be the IMF's main concern.

The IMF expects a significant slowdown in developing country growth next year compared with the projections it made in April of this year (4.1 per cent compared with 4.5 per cent).

It also says that world trade is expected to expand only 3½ per cent in volume terms this year (rather than the 5½ per cent it projected in April) and 4½ per cent in 1986.

The IMF says too that it is only expecting export volume growth by developing countries of ½ per cent in 1985 down from 8½ per cent in 1984, as a result of the slowdown this year in the industrial countries' growth.

"Largely as a result of financing constraints, developing countries are expected to scale back their imports by almost as much as exports so that their current account deficit is likely to remain at the relatively low level reached in 1984."

REVISIONS TO THE PROJECTIONS: WORLD OUTPUT, 1984-86*

	Current projections (Changes from preceding year, in per cent) 1984	1985	1986	Revisions compared with April World economic outlook (In percentage points) 1984	1985	1986
World	4.5	3.1	3.4	0.1	−0.3	—
Industrial countries	4.9	2.8	3.1	—	−0.3	0.1
Developing countries	4.4	3.5	4.1	0.7	−0.5	−0.4

* Real GDP (or GNP) for industrial and developing countries and real net material product (MMP) for other countries. Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GDPs (GNPs or NMPs, where applicable) over the preceding three years. Because of the uncertainty surrounding the valuation of the composite NMP of the other countries, that group has been assigned—somewhat arbitrarily—a weight of 15 per cent in the calculation of the growth of world output.

WORD OUTPUT (Changes %)

	1984	1985	1986
U.S.	6.8	2.6	3.3
Japan	5.8	4.4	4.0
West Germany	2.6	2.1	3.1
United Kingdom	2.6	3.2	2.2
France	1.3	1.0	1.7
Italy	2.6	2.7	2.6
Canada	5.0	4.0	2.4

U.S. agrees to increase in IDA funding

By Stewart Fleming

THE U.S. has agreed in principle that the industrial nations should increase their funding for the International Development Association (IDA), the arm of the World Bank which makes concessionary interest free loans to the poorest developing countries.

It is insisting, however, that new funding for IDA should be linked to stricter lending conditions so that borrowing countries are pressured to adopt market-orientated policies designed to improve the performance of their economies.

The decision to press ahead urgently with negotiations for the eighth replenishment of IDA resources was announced here after a meeting of the IDA deputies who have agreed to try and complete the talks in time for ratification by the World Bank/IMF annual meeting next year.

The decision provides further evidence of the shift in U.S. attitudes in the direction of providing additional financial resources to developing countries. U.S. opposition to increasing IDA's resources effectively limited the seventh replenishment of IDA, which came into effect two years ago, to only $9bn (£6.4bn) over three years, less in real terms than the sixth replenishment which provided $12bn over four years.

A special specific supplementary facility for sub-Saharan Africa, which the U.S. did not participate in, brought the total funds administered by IDA Seven in its current three-year funding period to $10.3bn.

Mr Moeen Qureshi, Senior Vice-President of the World Bank and the man who will lead the IDA negotiations, said that talks will open in Paris in January and he hopes they will be completed (with unusual speed) by next October. He refused to give any indications of how big a replenishment of IDA he will seek but there is speculation that officials will aim at a minimum target of around $12bn for IDA Eight.

There appears to be a broadening concensus that a reduction in the current 50-year maturity of IDA loans is needed, especially for the more creditworthy borrowers. A 35-year maturity is under discussion.

Growth should take priority says G24

BY PETER MONTAGNON

ARGENTINA'S Economy Minister, Sr Juan Sourrouille, has invited fellow members of the IMF's Group of 24 finance ministers to a special meeting in Buenos Aires next February to discuss their response to the new U.S. initiative on dealing with the developing country debt problem.

Sr Sourrouille is chairman of the group's committee which links finance ministers of developing countries who have been calling here for major changes in the way the debt problem has been handled.

Running through their comments is a now deep-seated belief that economic growth prospects can no longer be sacrificed to the need to meet service payments on their foreign debt.

The committee's deliberations ahead of the formal opening of the IMF annual meeting here were hampered, however, by wide-ranging uncertainty over the details of the new initiative to be officially unveiled tomorrow by Mr James Baker, U.S. Treasury Secretary.

Sr Sourrouille told a press conference the Buenos Aires meeting would give the developing countries a chance to assess the initiative before next spring's regular meeting of the IMF's policy-making interim committee.

Top Latin American officials attending the IMF meeting here have meanwhile given a cautious welcome tinged with some disbelief to signs that the U.S. is now prepared to take a softer line on debt.

"The sheer fact that the government has taken the initiative of doing something is very positive," said Sr Fernao Bracher, central bank governor of Brazil.

Sr Dilson Funaro, Brazil's Finance Minister, said recent action to depress the dollar helped his country by making Brazilian exports to Europe more competitive and lowering interest costs on foreign debt service.

However, he added in an interview that it was also essential to persuade commercial banks to extend fresh credit. Sr Mario Brodersohn, Argentina's chief debt negotiator, said the new U.S. package should include multi-year arrangements for the provision of fresh money which went beyond the traditional forced loans raised from banks. He also warned that real interest rates are still too high, particularly for debtors facing a fall in the price of their exports.

"We might reach a situation in 1986 by which we have the same conditions as in 1982 when interest rates went up and international prices were going down. If this is the case most Latin American countries will have difficult times."

Few developing country officials believe that the U.S. initiative will go far toward meeting all the demands set out by the developing countries in their communique this weekend.

Among the group of 24 demands were that debt service payments should not claim an unreasonable proportion of export earnings; monitoring by the IMF of a debtor's economy should not be a necessary condition for multi-year rescheduling; governments should improve the conditions for official rescheduling of debts and should extend new credits through their export credit agencies to those countries that have rescheduled their debts; and conditions of rescheduling should take into account natural disasters

WORLD TRADE NEWS

U.S. wants tighter CoCom control

BY DAVID MARSH IN PARIS

THE U.S. this week is to press its allies for greater vigilance in technology trade with the East bloc at a high level meeting in Paris of the Co-ordinating Committee (CoCom) which vets Western sales to Communist countries.

Mr Richard Perle, the U.S. assistant defence secretary for international security policy, is coming to Paris for the meeting tomorrow. Mr Perle, a keen supporter of strengthened powers for CoCom to deter flows of militarily-useable technology to the East, is expected to underline the need for more effective counter-measures against Soviet attempts to gather arms secrets.

This follows publication last month of a detailed Pentagon report warning against Soviet attempts to collect Western military intelligence.

Senior officials from the main Western nations at the meeting on Tuesday will also be considering the question of liberalising controls over high technology trade to China in line with warmer relations between Peking and the West.

CoCom groups 15 Western countries, including all the North Atlantic Treaty Organisation members apart from Iceland, plus Japan.

CoCom experts have already started work on preparing less restrictive rules covering technology which can be exported to China.

The first batch of product lists allowing export to Peking of electronic material and other equipment — including arms—which would be banned to other Communist countries is expected to be drawn up next year.

In anticipation of the new rules, the U.S. has recently indicated it will approve export by France to China of a highly developed business communications system manufactured by the software group Sesa.

Sale of the system was held up during the summer. This reflected U.S. fears that the technology could be used both in weapons and also to make China's army communications impossible to "tap", by radiation-detecting spy satellites.

Relaxation of the U.S. attitude over the Sesa order, along with the anticipated setting up of less-restrictive China product lists, is expected by Western diplomats to spur fresh Chinese efforts to buy sophisticated arms from the West.

Chris Sherwell previews the forthcoming economic summit in Bangkok

Asean hunts for closer EEC ties

AN AWKWARD moment could be looming for the European Economic Community in its generally friendly relations with the six partners of the Association of South-East Asian Nations (Asean). Economic ministers from the Ten will be meeting their counterparts collectively for the first time in Bangkok on October 17 and 18 —and it is not obvious what they can, or should, do.

The idea for the gathering came from Asean—Thailand, Indonesia, Malaysia, Singapore, the Philippines and Brunei—when foreign ministers from the two sides held their regular meeting in Dublin in November last year. The Western Europeans, regarding such external relations as the foreign ministers' preserve, accepted only reluctantly.

Asean wants stronger West European involvement in the region. It wants all Western industrialised countries to help in the rather nebulous areas of "technology transfer" and "human resources development" but it would also like to see a higher European profile to help counter the more powerful presence of Japan and the U.S. as a kind of "Third Force."

Quite how this should be done is unclear, not least to the Europeans. One suggestion from Asean is a physical presence in South-East Asia for the European Investment Bank, an idea almost killed when it was first mooted last year on the grounds that the institution is specifically a West European regional development bank.

A study is supposed to have been under way since then. As there is a precedent for EIB involvement outside Europe, in the form of a Brazilian project it is helping to fund, some sort of symbolic move is possible.

Without such a move, or preferably a more ingenious one, there is a risk of the Bangkok meeting being a failure. The Asean countries might reiterate familiar complaints about EEC protectionism, and the Community would be unlikely to respond in kind, even though Asean has benefited from the EEC's Generalised System of Preferences and despite European frustrations at Asean's foreign investment procedures, local ownership rules and trade barriers to the outside world.

In fact relations between two of the world's most successful modern economic groupings are generally good.

On the political level Western Europe is happy to follow the Asean line on the key issue of Kampuchea, while EEC development assistance operates adequately if far behind Japan in quantity.

In trade, EEC figures show a healthy increase in value from Ecu 3.4bn in 1973 to Ecu 19.4bn (£11.4bn) last year, with a rising proportion of manufactured goods among Asean's exports to the EEC. As for European investment, this is higher than both Japanese and U.S. investment in Singapore and Malaysia.

All this seems not to be quite enough, however. European investment lags behind Japan in Thailand and Indonesia, probably the two major economic powers in Asean, and behind U.S. investment in the Philippines. In trade the Community's share of Asean business has actually fallen.

The effect is to reinforce an intangible sense on the part of Asean that Western Europe is insufficiently interested in it—that the EEC is somehow not "sincere" about South East Asia. Matters were hardly improved in July, when Europe's presentations at the annual "dialogue" session between the Six foreign ministers and Asean's foreign partners were littered with customarily vague "Eurocratese."

Whereas the U.S. was represented by Mr George Shultz, the U.S. Secretary of State, and Canada and Australia sent their foreign ministers, the EEC was represented by M Claude Cheysson for the Commission and Prince Henri of Luxembourg for the Council of Ministers in a visibly less effective double act.

At the forthcoming Bangkok talks, Britain is likely to be represented by Mr Paul Channon, junior trade minister, rather than Mr Nigel Lawson, the Chancellor, and other Community members are also unlikely to send their biggest names.

Yet for all the talk of Europe's allegedly low profile in South East Asia, it remains a fact that European companies fall over themselves scrambling for business in the region, not only stabbing their West European competitors in the back but occasionally their own countrymen as well.

In this respect, at least, Western Europe comes across in the region as crazily competitive by comparison with Japan, whose trading houses and government manage to make Japanese corporate and national interests fit together so well that many of their super-low bids for international contracts are quite unmatchable.

Asean countries, for their part, can secure such low prices because they know they are currently in a buyer's market which is doubly attractive to contractors as they can also pay their bills.

To Asean, however, that is merely compensation for being virtually powerless to influence the prices of vital commodities they produce — oil, natural gas, palm oil, rubber, tin, timber, pepper, rice, tapioca, cocoa, coffee, coconuts, sugar and tropical fruit.

Nevertheless there is growing concern in Asean that, in the face of protectionism in the U.S. and Western Europe, Japanese investment may be starting to shift away

Suggestions are surfacing that Asean's competitive economies should look more to each other, developing internal trade ties and specialising their manufacturing sectors with a view to greater complementarity.

How Western Europe can help in these more complex matters is even less clear. Its experience of regional co-operation is far greater than Asean's, but Asean has barely moved down the road to integration, out of choice.

Its much-vaunted Government industrial complementation programmes have made disappointingly little headway.

If the EEC does find it difficult to help Asean, perhaps the most realistic view about the Bangkok meeting will be the longer-term one offered by a Western banker: that the mere fact of the two sides talking on a wider basis is the most important consideration, however aimless the discussions

China plans to expand national airline

CHINA'S national airline CAAC plans to buy 30 wide-bodied jets over the next three years in addition to more than 40 new aircraft purchased this year, the New China News Agency said, Reuter reports from Peking.

Guo Hao, CAAC's deputy director-general, said the planes would enable the airline to scrap old models and meet an expected 20 per cent annual rise in business over the next five years.

"China's civil aviation industry has entered a new stage of development, in meeting the demands of the country's policy of opening to the outside world," he said.

Guo also announced plans to expand routes to at least eight new countries. The airline flies to 25 cities in 21 countries, with 17 foreign airlines flying to China.

He said CAAC would start flying to, among others, Argentina, Brazil, Canada, East Germany, Italy, Mongolia, Nepal, Turkey over the next three years.

He said it would also increase flights to Europe, Japan, the U.S. and Hong Kong.

● Dow Financial Services, a London-based group in which Dow Chemical of the U.S. has a controlling stake, is lead manager in a $13.5m (£9.6m) loan to finance an industrial project in China.

The credit is being granted by a Hong Kong consortium to finance a beer-can plant at the Zhao oing brewery in Guangdong. As a joint venture between the brewery and the Hong Kong-based Sun Shiu Kong tenterprises, this will produce 194m cans for 'Ding Ho' beer annually.

Dow financial services, which is participating in the project through a Hong Kong subsidiary, says this is its first major venture in China.

● Senior executives at Boeing's headquarters in Seattle, U.S., are considering launching a fresh initiative to try to stop the European Airbus Industrie consortium winning an order from Indian Airlines worth up to $1.6bn (£1.14bn).

Airbus received a letter of intent from the airline 11 days ago which meant that a similar letter of intent issued to Boeing for a $560m order last year would be cancelled.

Brazil asks U.S. group to raise $95m for steel works

BY ANDREW WHITLEY IN RIO DE JANERIO

MANUFACTURERS Hanover leasing, a wholly-owned subsidiary of Manufacturers Hanover Trust, has been awarded a mandate by the Brazilian Government to raise $95m (£67.9m) for the controversial Acominas steel works through a sale-and-lease-back operation involving equipment already installed at the partially operating plant.

In a further move, aimed at completing the first stage of Acominas whose total costs to date have risen to $6bn, compared with an original estimate of $2.7bn—the state-owned Banco do Brasil is to provide the cruzeiro equivalent of US$100m in pre-export financing.

The Banco do Brasil funds are linked to contracts to be signed with the Swedish trading company, Boliden Intertrade Aktieboleg, for the pre-sale of up to 1.2m tonnes of blooms and billets. Final customers are reported to be a number of Far East steel mills based in Japan, Hong Kong and, possibly, Singapore.

Acominas, a greenfield integrated steel works in Minas Gerais, with an initial annual capacity of 2m tonnes, brought its first battery of coke ovens and its blooming and billet mills on stream last February, utilising ingots provided by other companies in the state-controlled Siderbras group.

The Davy Corporation, through its Davy McKee subsidiary, is the lead foreign contractor, while CGEE Alsthom of France and GEC and Woodall-Duckham of the UK are also involved.

Subject to repeated budget cut-backs and a lowly place in government project priority lists, Acominas has, in recent years, been a source of considerable embarrassment to both the Brazilian authorities and Davy.

Already five years behind its original schedule, the giant steel works has suffered a further six months' delay this year under the new Sarney Government because of difficulties in completing the two financing operations new being arranged.

However, provided the sale and lease-back deal is completed rapidly, work on the blast furnace, steelmaking plant and its second battery of coke ovens could be finished off over the next six months, finally bringing the project fully on stream.

A second stage, embracing the erection of plant and import of equipment for the production of heavy sections and rails, is budgeted at $288m. But this is thought likely to be postponed until 1987 at the earliest,

Zurich beer for Egypt

BY TONY WALKER IN CAIRO

EGYPT'S state-owned Al Ahram Brewery has signed a licensing agreement with Brauerei Hurlimann of Zurich to produce what is described as a malt non-alcoholic drink.

The Swiss company is providing the formula and technical advice for the enterprise which is expected to produce about 4m crates of the non-alcoholic beer and other carbonated drinks a year.

Investment by the Egyptians in a new plant to produce the malt beverage is equivalent to $30m (£21m).

Brauerei Hulimann will be paid a licensing fee and royalties on sales of the drink.

World Economic Indicators

RETAIL PRICES
(1980 = 100)

	August 85	July 85	June 85	August 84	year
U.S.	131.0	130.8	130.6	126.8	+3.3
UK	142.9	142.5	142.7	134.5	+6.2
W. Germany	120.7	121.1	121.3	118.2	+2.1
France	159.1	158.9	158.3	150.6	+5.6
Italy	191.2	190.8	190.4	175.3	+9.1
Netherlands	122.2	122.2	122.4	119.4	+2.3
Belgium	141.3	141.3	140.5	135.0	+4.7
Japan	114.0	114.7	114.6	111.0	+2.7

Source: Eurostat

SHIPPING REPORT

Dry cargo market hit by rates rise

By Andrew Fisher, Shipping Correspondent

THE DRY cargo market was more subdued last week after the sharp rise in rates seen in late September but the tone was still a good deal more buoyant than in previous weeks.

The setback in rates was "not of much substance" according to Denholm Coates, the London shipbroker. Rates for grain cargoes from the U.S. Gulf to Europe eased slightly to just over $8 (£5.7) a ton and from the Gulf to Japan to $13.50.

Grain trade has been boosted by the improved demand from Japan, as well as increased enquiry from the Soviet Union, though it is hard to know how much of the latter translates into business. The coal and iron sectors have also been busier.

The improved market should continue throughout October, said Simpson Spence and Young Shipbrokers. Around 20 Panamax ships (60,000-80,000 deadweight tons and able to go through the Panama Canal) are reported to be needed for the U.S. Gulf to Japan trade in the second half of the month.

Simpson Spence and Young warned: "The current firmer market looks like being short-lived, as overall demand is not expanding and the supply of ships is still increasing." The shipping industry had a poor summer and rates are still lower than 1984 "and have not even reached the point from which they declined so steeply this year."

On the tanker market, business for VLCCs (very large crude carriers) in the Gulf remained slow. Galbraith's reported only three orders quoted openly in the market, though Japanese charterers fixed vessels for forward positions.

Frankfurt textile fair

A record 1,737 exhibitors from 46 countries will take stands at heimtextil, the world's leading fair devoted to household textiles, in Frankfurt next January, writes Anthony Moreton.

Dr Christian Bartelt, general manager of Messe Frankfurt, which runs the exhibition centre, one of the largest in Europe, said that just over half the exhibitors would come from outside Germany.

UK NEWS

Oil groups express fears over British Gas sell-off

BY DOMINIC LAWSON

BRITAIN'S oil exploration companies have been holding talks with Mr Peter Walker, the Energy Secretary, over fears that the British Gas Corporation, when it is privatised, will shake up the UK independent oil sector.

At the same time it is believed that the corporation is increasingly worried that the main oil companies, such as Shell and BP, will use their money to buy large stakes in the corporation once its shares become available in a public offering in a year's time.

Sir Denis Rooke, chairman of British Gas, has said that the corporation will expand into the oil exploration business once it joins the private sector.

In a recent letter to Mr Alick Buchanan-Smith, the Energy Minister, Mr Roland Shaw, the Secretary of Brindex, the trade association of the UK's North Sea oil exploration companies, said: "We are concerned that British Gas may become a predator which could use its immense cash reserves and cash flow to swallow up a number of the independent companies such as members of Brindex."

At a meeting with the chairman of four UK oil companies last week, Mr Walker and Mr Buchanan-Smith made it clear that they held the £1.5bn, UK independent oil sector in high regard, but made no specific pledge to safeguard them against future predatory moves by British Gas.

The Government and the oil industry have also had meetings with Professor Bryan Carsberg, director general of the Office of Telecommunications, about the possible methods of regulating a privatised national gas utility. Professor Carsberg said that any moves by British Gas to acquire oil companies "is very clearly an area that would require the joint attention of the Office of Fair Trading and a future gas regulatory body."

However it appears likely, that British Gas's chief concern is to avoid being taken over or controlled by the oil majors. Companies such as Esso, Shell und BP have taken large stakes in a number of European gas utilities such as Gasunie of the Netherlands and Ruhrgas of West Germany. These investments have proved lucrative to the oil companies.

Shortly before the Government announced it would privatise the British Gas Corportion as a whole, Sir Peter Walters, chairman of BP, said that he was interested in acquiring certain parts of British Gas.

The Government is now considering ways of protecting British Gas, such as the use of a rule preventing a single company holding more than 10 per cent of its equity.

Such a device has been used in earlier privatisations like Jaguar. But the corporation is likely to point out that a number of large oil companies each taking no more than 10 per cent of British Gas's equity, could achieve control of the UK's sole gas supplier.

A strong gas regulatory authority to oversee the corporation in the private sector will not diminish the attactions of British Gas to the City of London, the Association for the Conservation of Energy said yesterday.

Carlton Communications bids £80m for Thames Television

BY RAYMOND SNODDY

CARLTON Communications, the fast-growing video technology and television production company, has made an £80m bid for Thames Television, the largest British independent television contractor.

If the takeover goes ahead it will create the most sophisticated integrated group in commercial television, covering everything from the manufacture of digital video equipment to making and transmitting television programmes.

The new group, probably to be called Carlton Thames, would have a market capitalisation of about £300m.

Preliminary agreements have already been signed between Carlton and the two main Thames shareholders – Thorn EMI and British Electric Traction (BET).

The two companies, which hold all but 5 per cent of Thames' shares, said yesterday in a statement that the terms of the "unsolicited offer" were such that they merited consideration.

Approval by the Independent Broadcasting Authority (IBA) – which regulates commercial radio and television – is necessary for a change of ownership at Thames, but it is believed that extensive discussions have already taken place between Carlton and IBA officials.

Lord Thomson, chairman of the IBA, returns from holiday today and urgent meetings are likely to be held this week in preparation for reviewing the issue at the next authority meeting on Wednesday week.

A condition of the Thames Television franchise is that it should broaden its share base, and in particular give the public a chance to invest directly.

Carlton, which has a full Stock Exchange listing, plans to finance the deal by offering £80m worth of new shares in Carlton Thames immediately, if IBA approval is given. About 60 per cent of the value in the new shares would be accounted for by the Thames stake because of the relative size of the two companies.

In the first half of its 1984-85 year Carlton more than doubled pre-tax profits from £2.37m to £4.86m on a turnover of £18.4m and brokers expect profits for the year to top £11m on a turnover of £40m.

Thames had pre-tax profits of £8.7m on a turnover of £167.9m in the year ending March 31.

It is believed that Carlton has complete confidence in the present Thames management under Mr Richard Dunn, the recently appointed managing director, and sees Thames' role as complementary to its own.

Lord Brabourne, the independent producer who is on the Thames board, might be asked to be chairman in the event of a takeover by Carlton.

Electricity authority lifts coal stockpiles

By John Lloyd, Industrial Editor

THE CENTRAL Electricity Generating Board has rebuilt its coal stocks to near the levels held before the year-long miners strike after large purchases from the National Coal Board's stockpiles. But in other markets, where the NCB's hopes for the future lie, sales are sluggish.

Stocks at the power stations now stand at over 20m tonnes, compared with 26m tonnes at the start of the strike.

Confidential figures presented to last Friday's Coal Board show that over the past six months, the CEGB stocks have grown from just over 11m tonnes at the end of the strike in March 1985, to just over 20m tonnes.

This reflects an increase of 8.88m tonnes, growing at a rate of nearly half a million tonnes a week. About 200,000 tonnes of the 1.76m tonnes presently bought each week by the CEGB is from other than NCB sources – presumably from greatly increased imports.

From a stock level of 19.2m tonnes at the end of the strike, the board has run its stocks down by 9m tonnes to 10.2m tonnes in the past six months to September 21. Over the entire financial year, the board projects a further – although less rapid – stock rundown, by 4m tonnes to 6.2m tonnes.

This contrasts with the 25m–30m tonnes which the board had built up by the beginning of the strike in March 1984. The low level of stock likely to be achieved by next April will save the board many millions of pounds in stocking charges.

The figures show that the board has been able to recover production from its deep mines more rapidly than it thought, with output now considerably exceeding target. Over the past six months the UK's deep mines have produced 40m tonnes against a projection of 38.3m tonnes. The disposals to the CEGB were budgeted to be 38m tonnes, but the board was able to dispose of 39.3m tonnes.

The board now projects a deep-mined output over the whole financial year 1985/86 to be 88.7m tonnes – just short of the 90m tonnes at which it hopes to stabilise production. Its total projected output, including 14.6m tonnes from open cast mines and 1.7m tonnes from licensed mines, is 105.2m tonnes.

UK NEWS

Clearing banks trim networks

By Our Financial Staff

THE BIG UK clearing banks are continuing to trim their branch networks while the building societies strengthen theirs, although at a slower rate.

The nine London and Scottish clearing banks had 12,507 branches at the end of 1984, according to the annual survey by Noel Alexander Associates, the consultancy firm. This was down from 12,647 in 1983 and well below the peak of 13,201 in 1976. The building societies, by contrast, increased theirs to 6,845 from 6,672 in 1983.

All the big four clearing banks reduced their branch numbers. The biggest cut was at Midland Bank which closed 60 and opened nine for a net reduction of 51. The net closures at the others were Barclays 46, NatWest 18 and Lloyds 10.

NatWest still has the largest branch network with 3,217. Citibank, the U.S. bank, which has just become the first foreign clearer, opened five branches to bring its total to 11.

EUROPEAN COMMUNITY UNDER ATTACK ON PRODUCTION LEVEL

Warning on EEC sugar quotas

BY ANDREW GOWERS

BRITISH SUGAR, the UK beet sugar monopoly and subsidiary of commodity trading group S. & W. Berisford, said at the weekend that it will be "condemned to stagnation" if it does not obtain a larger production quota from the EEC next year.

Mr Gordon Percival, the company's managing director, also said that Britain could lose thousands of new jobs in biotechnology industries to continental Europe unless it is allowed to produce more sugar.

His warnings follow weeks spent lobbying several UK Government departments on the issue, and apparently mark an attempt by the company to step up pressure on the Government.

The European Community's five-year sugar regime, which sets limits on the amount of production qualifying for subsidy and imposes levies on producers to pay for the disposal and storage of surpluses, expires next year. Farm ministers are supposed to agree on a replacement by the end of 1985.

The European Commission has proposed leaving production quotas unchanged and raising producer levies by 25 per cent.

This would leave British Sugar with a quota of 1.14m tonnes, representing just under 50 per cent of domestic consumption, and a sharp increase in its levy bill, currently around £20m a year, or just under half of its pre-tax profits.

Several Community countries, led by France, are pressing for increased quotas. British Sugar is incensed, both at the Commission's original proposal – which it says discriminates in an unprecedented fashion against the UK – and at the British Government's refusal so far to oppose it by also demanding a larger quota.

Britain is the only EEC country whose sugar quotas fail to meet domestic consumption, largely because of the quantity it imports from Third World countries for processing by Tate & Lyle, the country's only other sugar company.

British Sugar argues that a 30 per cent increase in its production quota is necessary in order to satisfy an expected rise in demand for sugar from the food industry and consumption in coming years by new users among chemical manufacturers, making pharmaceuticals, paints and cosmetics among other products.

It estimates that UK consumption, currently about 2.3m tonnes a year, could increase by 350,000 tonnes as a result of these two factors. And it insists that its proposal would not harm the Third World cane sugar producers of Tate & Lyle.

"We now have a situation where a new biotech industry will come into being in Europe and will use sugar as its feedstock," says a briefing paper circulated by the company to the Ministry of Agriculture, the Department of Trade and Industry, and the Department of Energy.

"As the (Commission's) proposals stand the investment will be made in other member states and not in the UK. We believe this to be politically and commercially unacceptable."

British Sugar's demand for a larger quota comes against a background of heavy investment in efficiency improvements to its beet refineries in recent years, and a rise in sugar production owing to advances in agricultural technology.

Without the increased quota, the company suggests that it can see no prospect for growth: "With the extensive modernisation of the UK sugar industry now in place the Government will be condemning the UK industry to stagnation to the benefit of other countries. This applies both to the healthy continuance of existing traditional products and the development of new uses for sugar."

Mr Percival said his arguments appeared to have made headway with the Department of Trade and Industry but were still meeting some resistance from the Ministry of Agriculture, which is campaigning to reduce EEC food surpluses.

With the EEC producing more than 3m tonnes of sugar surplus to domestic requirements and several countries campaigning to be allowed to produce more, many observers believe that it would in any case be exceptionally difficult for Britain to obtain special concessions.

September commercial vehicle sales rise

By John Griffiths

UK SALES of new commercial vehicles rose sharply in September, by 27.44 per cent compared with the same month a year ago. Statistics from the Society of Motor Manufacturers and Traders show that 25,405 vehicles were sold during the month against 19,935 last year.

This has produced a further acceleration in the recovery from the commercial vehicle industry's worst post-war recession, with sales for the first three quarters, at 223,865, now 6.35 per cent ahead of the equivalent 1984 period when 210,502 were sold.

The market share taken by importers fell in September, from 37.4 to 35.2 per cent. However, the underlying trend is still upwards, with the importers taking 36.7 per cent in the first nine months compared with 35.8 in the comparable year-ago period.

Last month's improvement was across all the commercial vehicle sectors.

Sales of light vans rose to 7,750 (6,141) bringing the year to date total to 72,699 (66,886), medium vans to 11,783 (8,422) for a nine-month total of 95,966 (90,924) and heavy trucks, those over 3.5 tons, to 4,535 (4,067) for a nine-month total of 42,776 (40,402). Ford is predicting a heavy truck market of 53,000 this year.

Sales of four-wheel-drive utility vehicles increased, reaching 1,214 for the month (1,134) and 10,271 for the year to date (9,400).

Reliability of top-selling cars criticised

Financial Times Reporter

SOME of the best-selling cars in the UK are criticised for poor reliability and on several other fronts in the latest annual car-buying guide published by the Consumers' Association.

The 64-page Which? guide reaches its conclusions partly on the basis of 25,000 questionnaires it says are returned by car-owning members, and partly on its own road tests over 5,000 miles of vehicles it buys anonymously.

Ford and Austin Rover take brickbats as well as bouquets: the guide praises the driving qualities of most of the two groups' ranges, but describes some of Ford's Fiesta, Escort and Sierra models as "troublesome" and "unreliable". The guide describes the Austin Metro as being "economical, but it can also be troublesome" and says the Maestro and Montego are "very unreliable".

It lists "best buys" in the smallest-car class as being the Citroën Visa and Fiat Uno, while the Audi 100 and Volvo 200 series come out best for reliability and rust-resistance among executive cars.

As usual, Japanese cars come high on the list of the most reliable although Vauxhall also ranks high on the same table.

Pressure grows on GM to cut imports

FINANCIAL TIMES REPORTER

GENERAL MOTORS (GM) faces a mounting campaign from unions and politicians to increase the UK content of its British-made vehicles and to cut imports.

Workers at GM's Vauxhall car and van plant at Ellesmere Port, north-west England, plan to walk out on Tuesday in the latest move by the unions to force the company to boost production of the Astra car at the plant and to halt imports of the vehicle from West Germany.

During the half-day stoppage the 2,500 workers in the Transport and General Workers' Union (TGWU) plan a motorcade through Ellesmere Port to publicise their campaign.

The action follows a meeting held at last week's Labour Party conference at which Vauxhall union officials spelled out their demands to Mr John Smith, Labour's industry spokesman, during a 90-minute private meeting.

The unions argue that despite repeated assurances from GM that UK content of Vauxhall vehicles would rise and imports be reduced, the company has merely become an assembly operation. They fear there are similar plans in the pipeline for the Bedford trucks and vans operation.

The unions also claim that Vauxhall has gone back on an agreement signed three years ago that the Ellesmere Port plant would be the sole supplier to the UK of the Astra, with no imports of the vehicle.

They seek a pledge from Labour politicians that if returned to power, they will introduce a Bill so that the UK content of vehicles assembled in Britain will be measured by weight, not value.

Vauxhall claims its cars have a 60 per cent UK content, which includes labour, rates, electricity and other running overheads. The unions put the figure nearer 6 per cent and point out that only minor parts like trim, dashboard and some electronics are British-made.

During the meeting with Mr Smith it was suggested that if GM continued to ignore the call for a cut in imports and failed to increase UK content, its overseas-made vehicles should have special import tariffs.

There was a further suggestion that a future Labour government might ban government departments from buying GM vehicles.

UK NEWS

N. Sea oil rundown 'will strain recovery plans'

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE BRITISH economy will again be subject to balance of payments problems as North Sea oil starts to run down towards the end of this decade, Cambridge Econometrics, a forecast group, says today.

Its latest medium-term projection to 1990 suggest that the current account of the balance of payments could be in deficit by as much as £4bn by 1988.

It says: "By the end of the decade, the UK will once again be a net importer of oil. Exports of manufacturers, which declined when oil exports increased, are not expected to recover enough to prevent the re-emergence of deficits on the current account."

It believes import penetration of foreign manufactured goods will rise from 31 per cent of the UK market in 1983 to 37 per cent by the end of the decade.

It expects services will generate an increasing surplus on the trade account, but this will not be enough to offset the deterioration of the visible balance.

The forecast group says: "Although the service industries are expected to make an increasingly positive contribution to the balance of payments, the concern is that the international competitiveness of many U.K. service industries has not been tested.

"The U.S. is pressing for British support for a reduction in barriers to trade in services, and the European Commission is trying to achieve the same objective within the Community."

However, the group fears the failure of manufacturers to respond well to the liberalisation of trade after the second world war may have set a pattern that will be repeated for the service industries.

Cambridge Econometrics believes continued high unemployment (with the total out of work rising to 3.7m by 1990), and the decline in North Sea oil revenues will put pressure on the Government's finances.

Call for wider ownership of assets

BY PHILIP STEPHENS

A CALL for radical tax reforms to boost personal ownership of financial assets is made today by the Centre for Policy Studies.

The centre, a think tank sympathetic to the present Government, says that the current tax structure is encouraging the concentration of financial assets in the hands of institutions.

By 1988 the proportion of individuals' financial assets held by insurance companies and pension funds may reach 70 per cent, up from 44 per cent five years ago, it says.

In a pamphlet timed to coincide with this week's Conservative Party conference, the centre calls for the establishment of personal investment pools which would give individuals tax equality with institutions.

The scheme would work by allowing individuals to put aside a part of this annual income in a segregated personal pool which they would enter free of all tax. Once within the pool, assets would be accorded gross fund status.

Tax would only be payable when savings were withdrawn from the pool, the timing of which would depend on the individual.

The result, the centre says, would be to encourage enterprise and risk, and to put ownership by individuals and institutions on an equal basis.

Sainsbury chief tops boardroom income list

By Helen Hague, Labour Staff

FIVE UK company directors are receiving more than £1m a year in pay and dividends, according to a survey of boardroom pay trends conducted by Labour Research, an independent trade union research body.

Mr David Sainsbury of the J. Sainsbury supermarket group, topped the pay and dividends earning league with £7,797,312 in 1984-85. He is followed by Mr Roland "Tiny" Rowland of the diversified investment group Lonrho, who received £5,272,861.

Mr Terence Conran, of the Habitat/Mothercare stores group, received £1,812,260 in pay and dividends – a rise of 22 per cent on last year.

Of the companies surveyed, 61 paid at least two directors £100,000 or more – and 19 paid five or more directors such a sum.

Of these 19, nine are in the finance sector.

Labour Research's survey says 338 UK directors have an annual salary of more than £100,000. Of these 44 earn more than £200,000, with four earning more than £½m.

* *Labour Research Magazine, 78 Blackfriars Road, London SE1 8HF (95 p).*

Directors warned on new law's penalties

BY GEORGE GRAHAM

BRITISH directors have received a strong warning that they must do a better job or risk losing their personal fortunes when the new Insolvency Bill becomes law.

Guidelines issued today by the Institute of Directors advise companies to take immediate action to ensure that their management and accounting procedures are adequate.

"It is particularly important for directors to get this right," the guide says. "The personal consequences of failing to do so may be catastrophic."

Under the Insolvency Bill, which is expected to take effect early in 1986, directors may be made personally liable for the debts of a company that becomes insolvent if it has traded "wrongfully." And the degree of efficiency expected from a director will rise significantly.

"The standard of performance a director will have to display will now be without question on a par with that required by law from practitioners in other professions," said Mr Andrew Hutchinson, author of the Institute's guidelines.

"It is notorious that the extent to which many private companies comply with the details of the Companies Act is pretty sketchy," Mr Hutchinson said.

"In these cases directors will be skating on very thin ice if they do not accept formally that they must consider the company's viability. They will have a duty to ensure that it does not trade wrongfully."

Directors should make sure that formal board meetings are taking place and insist on receiving adequate financial information.

"It is extremely unlikely that the directors of a company that does not have a formal board system will be able to mount a successful defence against disqualification or personal liability for wrongful trading."

The guidelines give the example of a non-executive director in a small private company who draws attention to the inadequcy of the financial information provided to the board. If he failed to do so he might become personally liable in the event of the company becoming insolvent, since board information is generally recognised as crucial.

If the finance director then produces new and grossly inaccurate accounts, his own exposure to liability increases, but the non-executive's may be reduced if the accounts are superficially correct. However, an executive director who, from his knowledge of the company's operations, might reasonably be expected to spot the inaccuracy, could then become personally liable.

"Guidelines for Directors: recommendations and guidance on boardroom practice," IOD Policy Unit, 116 Pall Mall, London SW1Y.

UK NEWS

Guy de Jonquieres looks at the row between British Telecom and GEC

BT's relations with suppliers deteriorate

BRITISH TELECOM's already tense relations with its traditional UK suppliers have taken a decided turn for the worse since the General Electric Company announced last week that it was shedding more than 900 jobs partly because of BT's procurement policies.

GEC blamed BT's decision last spring to order digital public telephone exchanges from Thorn-Ericsson, a UK-based joint subsidiary of Thorn EMI and Sweden's L. M. Ericsson. That will reduce the orders available for System X, the home-grown exchange made by GEC and Plessey.

BT has not responded publicly to the GEC statement. Privately, BT's top managers are angry at what they regard as an unwarranted attempt to off-load blame when they believe GEC's own performance is far from satisfactory.

The row is the latest to dog System X, a joint effort between BT, GEC, Plessey and until 1982, STC. BT has spent well over £350m on development since 1969. The fracas also further underlines the continuing conflicts and uncertainties about BT's role after it was privatised late last year.

GEC has said the planned job losses partly stemmed from changes in product and manufacturing technology. The shift from older electro-mechanical exchanges to fully electronic equipment is reducing its labour requirements, and employment in its telecommunications switching division has already fallen to 6,900 from 13,000 four years ago.

But the point which hit the headlines, and on which GEC's unions seized most vociferously, was the implication that British jobs were going because BT had chosen to buy abroad. BT refutes the charge – so where does the truth lie?

In the wake of its announcement, GEC seemed less than clear about the precise nature of the job losses. At first, a senior manager in its telecommunications division said the cuts would not touch the System X programme at all.

But another executive insisted later that about 450 of the job losses resulted directly from BT's orders for the Thorn Ericsson AXE exchanges, known in the industry as System Y.

These orders were announced in early April after BT had spent about six months evaluating rival tenders from Thorn-Ericsson, Canada's Northern Telecom and AT&T and Philips. But GEC says it did not cut System X production capacity earlier because it had hoped right up to the last moment that the System Y orders would not be placed.

It and Plessey had lobbied heavily against BT's plans and apparently hoped they would be blocked by the Office of Telecommunications (Oftel). But Oftel approved the deal in June, although it asked BT to limit System Y's share of total orders for three years – a request which BT rejected.

As BT sees it, GEC was burying its head in the sand. "The System X suppliers were aware as long ago as 1982 that we had every intention of going for a second source of exchanges," says Mr John Alvey, BT's engineer-in-chief. "I find it very difficult to believe the GEC job losses result from System Y."

He also complains that the System X programme has slipped badly and is now running 15 months late. BT's timetable calls for 1.75m local exchange lines to be in service by next March. But so far only 1,000 lines are operating, and BT doubts that more than 900,000 will be installed in the next six months.

It blames the delays largely on failure by GEC and Plessey to get System X into mass-production on schedule. In BT's view, the two suppliers already have more orders than they can meet on time.

The suppliers retort that BT has caused delays by repeatedly changing the System X specifications. Oftel has said there were faults on both sides. They also argue that BT set technically less demanding standards for System Y than for System X. BT says it is harmonising the standards for the two systems.

Whatever their cause, the System X delays come at a bad time for BT, which desperately needs to re-equip its antiquated network. Its inland call volume is growing by about 8 per cent a year and some BT areas warn that unless they get extra exchange capacity soon, subscriber waiting lists will start mounting.

The first System Y exchanges will not be delivered until late next year. As a stop-gap measure, BT is spending almost £100m to equip older TXE4 exchanges to offer some of the computerised services available on System X.

BT will not say exactly how much business it plans to give Thorn-Ericsson, although it does not expect System Y to account for more than 20 per cent of its total annual orders for digital exchange lines. These are expected to reach a peak of 2.8m lines in 1987-88.

BT's longer-term intentions are uncertain because it is revising its network planning in response to competition from Mercury Communications. This is likely to lead to changes in the installation schedule for digital exchanges in different parts of the country.

BT argues that buying System Y exchanges will not damage UK telecommunications manufacturing activity because much of the equipment will be made in Britain. Thorn-Ericsson expects 70 per cent of the value-added content to be British and says it will employ more than 900 people if BT orders reach 500,000 lines a year.

But such statistics are of little consolation to GEC and Plessey, which argue that a fall in System X's share of orders will harm their economies of scale. According to Oftel, the two companies' production costs might rise by 10 per cent a line if System Y orders total 500,000 a year.

BT's response is that GEC and Plessey should look more aggressively for export sales. It argues that even if System X had no competitors at home, sales to the UK market alone would not be large enough to recoup its full development and production costs.

GEC and Plessey complain that it is difficult to enter foreign markets, and that BT's decision to buy from Thorn-Ericsson is seen overseas as a loss of confidence in System X, which is a late starter on world markets.

The System X suppliers say they are still hoping to make a breakthrough in export markets. But apart from small contracts in the Channel Islands, System X's list of foreign conquests remains short: a single 6,000-line exchange installed by Britain's Cable & Wireless on the Caribbean island of St Vincent

Employers' pension funding 'too high'

By Eric Short

CONTRIBUTIONS paid by employers into company pension schemes are far too high, says a leading pensions consultant, Mr David McLeish.

He said schemes were showing substantial surpluses largely because employers followed the advice of scheme's actuaries to pay higher contributions than necessary for the security of the benefits.

He claimed the usual reasons given for large surpluses – good investment performance and lower membership numbers, were merely contributory factors.

Mr McLeish, a Fellow of the Faculty of Actuaries, is managing director of a leading UK employee benefit consultants, Godwins.

He said pension actuaries often used traditional methods to calculate contribution rates and value the financial position of schemes.

However, these had a tendency to produce high rates and to obscure surpluses.

Traditional methods are claimed to produce stable contribution rates and security for schemes. A funded pension scheme separated from the parent company's finances aims to provide security for the pension and other benefits.

However, Mr McLeish said this meant actuaries would take decisions about benefit structures that should be taken by employers.

He said it was bad financial management to tie up more money in the company pension scheme than was necessary to secure benefits, besides involving the Inland Revenue giving more tax relief than necessary.

Export orders show decline

By Maurice Samuelson

THE NUMBER of export orders won by businesses in south-east England in the last three months has fallen substantially, according to the latest quarterly survey of manufacturing trends by the London Chamber of Commerce and Industry.

The organisation says the survey provides evidence that export orders are less buoyant than previously

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Automotive parts

Independence is the life for Spice

BY JOHN GRIFFITHS

AT 45, Gordon Spice is an institution in European motor racing—one of the fastest Mini-Cooper racers of the 1960s; British Saloon Car Championship class title-holder for seven years in a row; winner of the Spa 24 Hours outright and this year's winner of the World Endurance Championship for C2 cars in the Spice Tiga racers created by Spice himself.

Currently, Spice is steering his way towards another goal—the Unlisted Securities Market.

His aim is to raise £0.75m early next year for the company that bears his name and which claims to be the largest independent wholesaler and distributor of automotive parts in the UK.

Gordon Spice Ltd should have crossed the line into the USM during September. Instead, it experienced the equivalent of a brief but embarrassing spin on the last lap, when it was almost in sight of the grandstand.

A former senior executive, recruited at the beginning of this year, is now facing criminal charges relating to some £75,000 allegedly extracted fraudulently from the company. The matter is sub judice and Spice insists no fundamental damage has been done. However, the impracticality of going to the USM on profit forecasts in the light of the incident is acknowledged and the audited result for its year ending September are now being awaited for use in the final prospectus.

What is particularly galling for Spice is that it has consistently identified tight management controls as being a key ingredient in the successful running of a company operating in a notoriously competitive market.

It is a sector which manufacturers like BL, through its Unipart subsidiary, have become major players posing a threat to the small, independent retailers which Spice supplies. (He began his business in 1965 selling competition accessories as an extension of his racing activities.)

But he is convinced that the independent will always have a place and that his company, by a combination of tight management controls, the use of technology to monitor closely the shifting requirements of the market and his company's performance in it and employment of a well-trained staff offering a quick response to demands, can command a growing slice of available business.

It is a market estimated by Mintel to be worth over £2.7bn a year but many analysts are gloomy about its prospects.

● Replacement car part sales will be static over the next decade, according to consultants such as Booz Allen and Hamilton, through cars becoming more reliable, longer lasting and lighter, and new car markets stagnating.

● Competition between carmakers has led them to fit as standard many of the accessories which provided a mainstay to the aftermarket.

● Margins are thin; structural changes are under way. One retailing casualty has been the Motorist's Discount Centre chain earlier this year.

● A few large operations like the soon-to-be-privatised Unipart, which turns over about £400m a year (exports included), are involved in everything from making parts to supplying its own franchised high street chain. But there are thousands of small independent factors and retailers. In between are the franchised vehicle chains, trying hard to woo back customers from "quick-fit" specialists like Kwik-Fit Euro.

● B & Q, owned by Woolworth, and Halfords sold by Burmah to the Ward White retailing group last November, this year are launching national chains of high turnover, low margin car parts "superstores," opening late at night, seven days a week.

The threat to the 3,000 or so small retailers appears obvious and analysts like Frost and Sullivan believe the trade's ramshackle nature makes it ripe for restructuring. As a major supplier is not Spice a poor USM risk?

Spice, in his trophy-bedecked office at Staines, in one of the four warehouse complexes (the others are at East London, Watford and Leicester), points to his record, even though in the past five years it starts on a down. With the recession biting hard a loss of £73,000 was incurred in 1981 on a £12.15m turnover. The previous year a £79,000 profit was earned on a turnover of £11.89m. Things got even worse. A minority interest taken in RSA Factors, a Leicester cash-and-carry, went sour. "We'd believed all the figures. It expanded quickly, but the operation was badly managed, and by the recession of 1980 it was in deep trouble with cash flow." Since in the trade's eyes Spice and RSA were closely linked, Spice felt it could hardly walk away. It took management control and shut three of the four branches, retaining only the Leicester warehouse.

Stemming the haemorrhage did the trick. In 1982, Spice was back on track, with pre-tax profits of £264,000 on a £13.9m turnover; in 1983, £15.4m and £342,000; and in 1984 £16.2m and £477,000. In the current half to end-March, turnover was £8.86m, with a pre-tax £294,000.

That inefficient retailers will fail, Spice accepts. But he discounts them going, as a breed, the way of the corner grocery shop. "The marketplace will change and the multiples will cream off the simple, fast-moving business. But car parts and accessories aren't like groceries. For a hell of a lot of people, their car is their biggest investment.

"An independent operator who knows his business has not got a lot of flexibility in knowing what and where to buy—the important ability to hold the customer's hand. It's an area where the public knows it needs help and advice—and that you simply don't get from the multiples."

He claims to be unconcerned about overall demand, pointing out that the car population continues to grow, and that 18-30 year-old owners of older cars are being encouraged into the DIY market by rising service costs and increased leisure time-factors working in favour of the expert independent retailer.

The essence of the game, says Spice, is fast response times, high availability, wide stock range and being closely attuned to local markets and trends. For that reason, each of the four warehouses operates autonomously, selecting its own ranges.

A distribution operation is being developed, using the cash-and-carry infrastructure and supplying some superstores and service station chains but it is being kept well separate from mainstream activities.

Spice himself might have learned the trade by growing up with it but no "old friends" have come along for the ride.

Charles Tippet, 36, joint managing director, was recruited from the Wincanton transport group, where he was chief accountant; Brian Merry, in charge of purchasing and marketing, is a former regional director of GKN-SPA, an automotive parts subsidiary of Guest, Keen and Nettlefolds.

A full-time training manager is employed; all new recruits undergo 13 weeks' induction training, followed by three-times-a-week sessions for all warehouse employees and full-day seminars for supervisors and managers. "The business," says Spice, "is the people in it —it's as simple as that."

Why bother with the USM, given that it has every appearance of a comfortable business for Gordon Spice who, with brother Derek has 60 per cent of the equity? Venture capital group Abingworth has 30 per cent and other share-holding directors and employees in the balance. Spice is also a keen believer in employee share-option schemes as a motivation.

"We've spent three years tuning up the business: we've consolidated and it's running profitably with a fully-formed management team. There are lots more opportunities in the car aftermarket to take advantage of. But we're also looking to the leisure market. . . .

"Long-term we want to broaden the base, and be national. Going public seems the best way for the company and people in it. Employee share ownership in a private company can be problematical. But when it's public, everyone's got a tradeable commodity."

Gordon Spice: operating in a notoriously competitive market

U.S. women managers

What men want to believe

Jane Rippeteau on a gap between perception and reality

IN THE past two decades, women have doubled their presence in executive and managerial positions in American business. And in that time, men have markedly improved their attitude towards these competitive women.

Indeed a recent survey shows that men have warmed to the idea of women managers even more than have the women themselves. More say they would be comfortable working for a woman. Fewer think a woman must "be like a man" to succeed. An overwhelming majority now agrees that women are temperamentally fit to manage—20 years ago only half allowed as much. And far fewer say they dislike competitive females.

But these felicitous findings have a darker side. The survey, conducted by Charlotte Decker Sutton and Kris K. Moore and documented in the latest issue of the Harvard Business review, updates a very similar one it conducted 20 years ago. The same questions posed in 1965 were put to 1,900 of today's male and femal executives selected at random from Standard and Poor's and Dun and Bradstreet, corporate register reference books.

Nearly all those managers now view women as expecting and wanting positions of authority—the top jobs. Twenty years ago, half the women and over half of the men rejected that notion.

Yet when the questions move from such generalities into specifics, a disparity begins to emerge between what men think is going on in the workplace and what really is going on.

Pay is a prime example. Two-thirds of the men said they did not believe that women are invariably paid less; 73 per cent of the women said they are paid less. The authors' analysis of salaries tabulated against years of work experience reveal that the male respondents in the survey consistently earn more—that a substantial salary differential does exist. Nearly half the men in the survey earn over £100,000 a year, against just 10 per cent of the women in the survey.

Men also revealed conflicting sentiments on the subject of working for a female boss. One-fifth, up from just under a tenth, now say that generally men feel comfortable working for a woman. But when it comes to them as individuals, they suddenly lose that co-operative feeling. This is particularly true of older men. Some 56 per cent of the men in the two older groups in the survey, those over 41, say they would not themselves be comfortable with a woman boss.

The gap between perception and reality does not bode well for women since it suggests that men want to believe that conditions for women have improved more than they actually have. Male managers are unlikely to alter situations that they do not recognise as flawed.

Fortunately for women achievers, note the authors, the contradictions do not seem to be as pronounced among the younger group of male managers, 31 to 40 years old. These men may "view women not as female executives but as business executives who neither make extraordinary contributions nor create special problems because of their gender," the authors say. Notes one woman respondent: "The biggest factor in the advancement of woman executives is the simple passage of time and . . . of the old boy network." Another woman corporate vice-president and general counsel looks forward to "the graying of the baby boom generation."

The women believe they will need all the help they can get. They are far less optimistic than the men about the opportunities available to them. The percentage of women who feel they have at least an even chance of advance within their own companies actually declined in the 20-year period from 40 to 33 per cent. This may be related to an expanded array of opportunities and higher expectations, the authors point out. By contrast, 58 per cent of the men surveyed felt women had equal opportunities in their particular companies, and 42 per cent felt women were on the same race track in business in general.

One disappointing aspect of the HBR survey is that it does not always plumb reasons behind particular attitudes. For instance, there is no airing from the respondents of the fears behind working for a woman boss. Four-fifths of the men are still uncomfortable with the notion and a greater percentage of both men and women say that women do not like the idea of working for a female. This is a key issue, since if women are to advance they must be able to demonstrate management skills.

Clearly, attitudes have changed dramatically. But the reality of change appears to lag. The women at the forefront are unlikely to relax their efforts. Their relative pessimism about their situation simply makes them more realistic. As the authors point out, they "view the disparity as evidence of persisting inequality of opportunity for women in the business world."

Women have had the aid of the Civil Rights Act's Title VII, which makes differential treatment of [illegible] the basis of sex illegal. Even so, considerable sacrifices have apparently been required. Of all the unmarried respondents, 94 per cent were women—almost half of all the women in the survey were single. Only 13 out of 348 were not married.

It is no wonder that a majority of the men and more than three-quarters of the women agree that, to make it to the management chairs and executive suites of American business, a woman still has to be exceptional.

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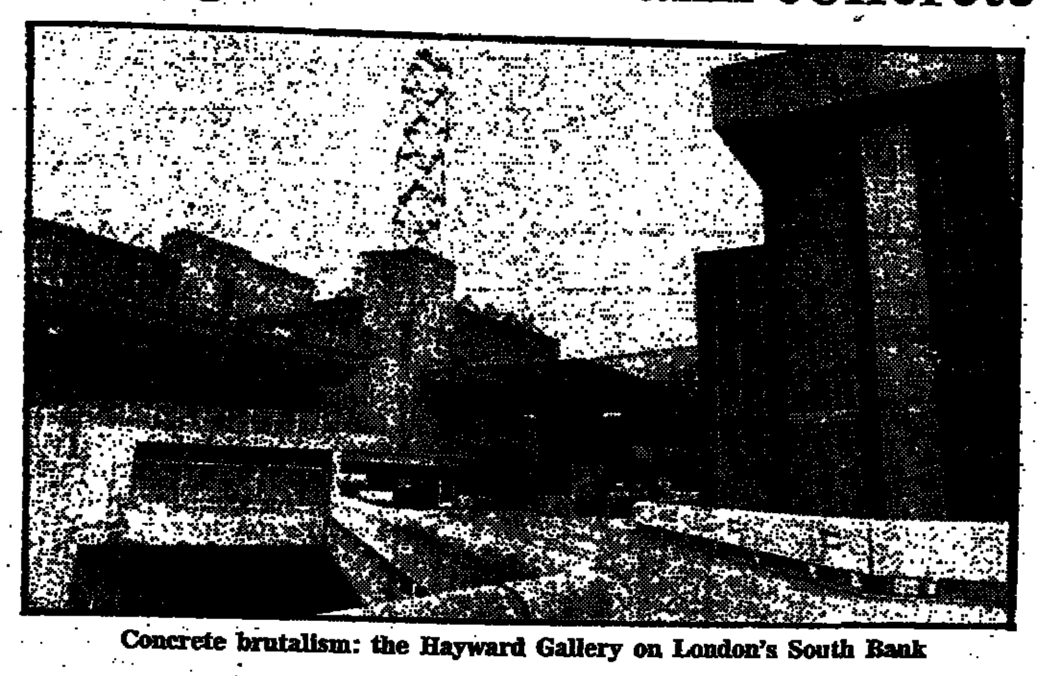
THE ARTS

Architecture

Colin Amery

Killing the South Bank concrete



Concrete brutalism: the Hayward Gallery on London's South Bank

Fakirs and soothsayers have puzzled over the problem for generations: how do you make the desert bloom? Plans to be revealed today for one of the great urban deserts of the world — London's South Bank — may provide an answer. The Greater London Council dissolves next April and the newly-established 15-man South Bank Board will take responsibility under the Arts Council as landlord of the site. Today the Board will announce that one of its first actions has been to commission a feasibility study from the architect Terry Farrell.

This is not the first attempt to find a way of making the South Bank a more congenial place. Not so long ago the GLC asked the maverick architect Cedric Price (of Fun Palace fame) to enliven the dreary acres of concrete. It appeared that his solutions were too theoretical for his political masters who proceeded instead to have an open door policy for the foyers and a large birthday cake twinkling on the terraces.

No one has ever been able to recapture the fragile jollity of the place when it was the home of the Festival of Britain in 1951 and thousands of Londoners, wearing hats and long coats, danced on the South Bank to the strains of Geraldo and his orchestra.

It seemed a more innocent world. A world before the brutalising effect of acres of board-marked concrete. A world full of spiky optimism, wavy roofs and lamp posts wearing hats. The Royal Festival Hall still has a little of the atmosphere of those early years of the Fifties in the designs of the carpets, the stylised lyres on the door handles and those bizarre "flying boxes" in the concert hall.

Architect Terry Farrell's proposals appear to get to heart of the problem. He has realised that the mass of elevated walkways that surround the Festival Hall, Queen Elizabeth Hall and the Hayward Gallery ruin the place. If you elevate walkways you have to have their dank undersides; as a result much of the South Bank feels like the damp antechamber of a Stygian cave.

From County Hall to Waterloo Bridge, suggests Farrell, the elevated walkways will be demolished (the concrete of many of the walkways is already suffering from concrete rot so their collapse is inevitable). If you imagine a South Bank without a forest of concrete columns the individual buildings begin to acquire a significance.

Farrell concentrates first on the large space that will be opened up between the Royal Festival Hall and the Queen Elizabeth Hall. This becomes in planning terminology a kind of Roman circus where the entrances to the three halls will open. The Royal Festival Hall does make more architectural sense if this side entrance with the ceremonial stairs becomes the main entrance. To gain access to the other concert halls existing staircases will be extended and there will be improved facilities for setting down by car and taxi.

The most innovative element in the proposals is the suggestion to cover the Hayward and the Queen Elizabeth Hall with a giant roof—a light structure made of Teflon-coated fabric—which will be translucent, a kind of giant market-hall roof. These huge, pitched roofs will be supported on two rows of slim columns. Like Victorian markets the roofs will keep only some of the rain off; they will be open at the sides. This seems to me a flaw—Covent Garden, for all its vaunted success, is too cold and draughty for winter activities.

Between the Hayward and the Elizabeth Hall there will be a 50ft-wide space with a permanent glass roof. Beneath this the extended foyers and shops will provide the kind of covered meeting place that has long been needed on the South Bank. Once the concrete buildings are covered up it will, of course, be possible to paint them—and Terry Farrell has already been mixing his post-modern palette.

From across the river there will be a view of glass, pediments, pavilions and flags. The South Bank itself will feel a bit like the square in front of the Pompidou Centre—although one hopes it will not have that dated hippy atmosphere.

But what is to be done with the Jubilee Gardens site? Apparently it will be possible to build on it and there are plans for an architectural ideas competition. London has a great need for good sports facilities in the centre (why not a Baths of Caracalla for Londoners?).

It is likely that over the next few years there will be opportunities to fill in much of the vacant land on the South Bank. It will not be a desirable place unless it increases its density. There should be a sense of Soho and and the Tivoli Gardens and some dark corners for sin. Even Mr Farrell is finding it hard to lift off the South Bank's impression of municipally-ordained culture, but killing the concrete is a good start.

Arsenic and Old Lace

Martin Hoyle

Anyone who knows the work of the Glasgow Citizens' Company should have suspected it. The two old ladies who murder their lodgers in a spirit of compassion for the lonely and unloved could not, of course, be played by women. In the event, neither of the hot tips for the roles of the poison-proffering barmecidal biddies materialised, Giles Havergal contenting himself with the production and Robert David Macdonald being absorbed in the imminent *Faust*.

After an amateurishly blocked opening which concealed Aunt Abby's face behind candelabra (at *tea*-time?) the old ladies of Patrick Hannaway and Derwent Watson are mo unexceptionable, a sort of muted Hinge and Bracket. The casting deprives the play of its central point, the contrast between the dotty sweetness of the old dears and the 12 corpses in their cellar.

Nor does the play gain from these mildly amusing, rather colourless performances. In sidestepping the excesses of both Danny La Rue and the pantomime dame, the players avoid both camps, if you'll excuse the expression, but leave us wondering whether the only reason for the casting is the lack of suitable elderly actresses. As it is, lines like "I don't think the police would pry into our private affairs if we asked them not to," instead of sounding naive came over as merely arch.

Colin Winslow's traditional set could be out of French's acting edition down to the last banister, and emphasises what a staple of repertory and amateur groups the comedy used to be. It still works amiably enough despite this company's very variable American accents. In the part that Cary Grant took in the film, Robert Gwilym has the brilliantined sleekness of your average dramatic critic (lines like "the theatre can't last much longer. In the meantime it's a living" provoked nervous smiles on the Press night).

John Sommerville has a good shot at the sadist who resembles Boris Karloff; Ciaran Hinds looks in appropriately like Joseph Chamberlain as the madman who thinks he's Teddy Roosevelt; and as the literary cop with Broadway blockbuster under his tunic, Robin Sneller's zest shows that he regards the play as no museum piece. This he has in common with Yolanda Vasquez, robust as well as romantic as the neighbour amorously involved with this cheerful charnel-house; but not, one feels, with the rest of the cast.

True Dare Kiss/Cottesloe

Martin Hoyle

We first met the four football-mad Mancunian girls when they were up for t'cup in *Red Devils*, commissioned by Liverpool Playhouse in 1983 and a very welcome visitor to the London fringe last year. Both *True Dare Kiss* and *Command or Promise*—also to be seen this month in the Cottesloe's festival of new plays—continue their story. Each play can be enjoyed on its own.

Or can it? Without glowing memories of *Red Devils* with its funny, touching and truthful observation of four very different mates gingerly testing the water of life with a toe in varying degrees of optimism, bewilderment and anger, I suspect I would have found the second play slightly less convincing and certainly less likeable.

Possibly over-anxious that new acquaintances should catch up with the girls' personalities, the author Debbie Horsfield occasionally paints their characters in over-emphatic colours. This leads to a dichotomy between the humour of wryly recorded behaviour and the exaggeration of, say, TV comedy.

The nervous Phil is discovering confidence in her own gifts at college—Bristol University, actually, whose popular image as a safety-net for Oxbridge failures receives a further bash with a vignette of joint-puffing trendies referring in awe to Mick (Jagger). Synthetic Oxbridge and a 1960s time-warp? Practical Nita opens her hair-dressing salon. Trim little Alice marries her Kev and finds that marriage is more than presents and a nice kitchen when her husband is revealed as a wife-beating thief. The pugnacious and foul-mouthed punk, Beth, actually, if disastrously, gets a job. Somewhat muted, except as conventional light relief, this character emerges more vividly in the final play of the trilogy.

Towards the end of the second act the play begins to feel its length (nearly three hours, including interval) as a result of disjointed chopping from one emotional involvement to another. Nita's affair with a spivvy Lothario on the cocktail lounge circuit (likeably played by David Cardy) forms a counterpoint to Phil's dreary relationship with a lecturer whom David Fielder embodies with a reticence verging on invisibility. A more genuine tension is provided by the sporadic appearances of Kev's vicious crony, Joey—to resurface, ominously, in *Command or Promise*—whom the unfailingly intelligent Stephen Petcher invests with a near-psychopathic nastiness.

Of the four girls, three were in the original *Red Devils*. Sally Jane Jackson beautifully judges the abused Alice's limitations: her loyalty, silliness, obedience to rules and ultimate resilience. Stella Gonet's Phil is the least sympathetically written part, over-reacting to every stimulus, voicing the cliché hostility of the newly-educated towards their background and cliché shock at the reality of economic depression. Tara Shaw's elegant and self-possessed Nita epitomises one of the author's favourite themes: liberation through self-reliance and sheer practicality, in which (and I am unsure how welcome Ms Horsfield finds the comparison) she would win the warm approval of those who currently rule our destinies. Nevertheless, I look forward to *Command or Promise*.

L'elisir d'amore/Covent Garden

Max Loppert

Donizetti's comedy is not one of the "important" operas. But when it is given with spirit, affection, and musical distinction, as it was by the Royal Opera on Saturday, the charm and tenderness of the work are sufficient to light up a theatre and send one home elated. A picky critic might have dug up this or that detail to fuss over in the latest revival, but that should do little to dim the general glow.

The 1975 John Copley production, with its Beni Montresor sets, has come back in good shape. When, in the past, there have been weaknesses of cast or conductor, it has seemed a fussy piece of pretty-prettiness; on this occasion, the picture-book colours and toy-theatre machinery found their proper place in a revival that had plenty of musical and dramatic colour as well as visual. Graziella Sciutti, that most beloved of Italian light sopranos (would that she could be prevailed upon to give another London song recital!) has taken over the staging, and has kept the fun and farce lively but never obtrusive—the characters tell as characters, not as brightly manipulated puppets.

Gabriele Ferro is the new Donizetti conductor. Mr Ferro is a real master of Ottocento style (as he proved in the first showing of the same company's *Barbiere*). It was wonderful to hear such a buoyant performance, vital and energetic yet flexible and lyrical, with space for singers to shape their phrases and a knack of exactly weighting the *semiseria* passages—the orchestral introductions to both Nemorino's air and Adina's "Prendi: per me sei libero" touched a vein of eloquence that was at once a lesson in Donizetti style and an inspiration to singers to match it. How variable this company's orchestra and chorus can be—and, at their best, how good!

The cast, all new to the opera (if not to the house), benefit greatly from the combined Ferro-Sciutti leadership. Marie MacLaughlin is naturally such a delight to eye and ear equally that it requires cool nerve not to abandon all critical equilibrium in dealing with her first London Adina. The voice seems to have gained new resources of colour and agility; but the reliance upon mannerisms and skirt-flouncing persists too long, and should quickly be replaced by greater verbal sharpness. She plays easily and well with the Nemorino of Francisco Araiza, who shows more charm and comic dexterity than might be expected of him. If only Mr Araiza could now broaden his tonal range more dependably, could eschew those ho-ho-hos that mar every scale or semi-quaver run, he might become a performer of real distinction.

For the first time in the life-history of this production, Dulcamara takes on native Italian accents and inflections. Rolando Panerai's voice was in chancy form for the first act, more rather reliable later; his understated dry humour and veteran stage address held firm even when intonation wavered. But perhaps the star performance, this time round, is Belcore's: Gino Quilico, handsome, assured, smooth of voice (no ho-hos here) and delicately self-important, introduces a patrician note that only intensifies the comic absurdity. A word for the Giannetta of the very young, very gifted Judith Howarth; and a more general final word of praise for the whole assembly.

The Wand of Youth/Sadler's Wells

Clement Crisp

Given ingredients which include Elgar's *Wand of Youth* music and Rupert Brooke's last poem, *The Dance*, it was not hard to guess the theme of Michael Corder's new *Wand of Youth*, receiving its first performance by the Wells company on Friday night.

It is a return to that familiar golden afternoon of the middle classes before the night of Ypres and the Somme. Charles Maude has provided an elegant setting of a conservatory, peopling it with two families and their friends in handsome creamy dress. The burgeoning love of a boy (Michael O'Hare) and a girl (Leanne Benjamin), their games with their friends (the brilliant Karen Donovan, Lili Griffiths, Iain Webb) are contrasted with the graceful exchanges between their parents and three friends.

Episodic in treating of the passing years, touched with light breaths of emotion and foreboding, the action is gently pleasing, until the final tableau in which all the male members of the cast—who have already collapsed as if dead in the preceding scene — are ghostly watchers amid the blasted trees of No Man's Land while their womenfolk grieve.

For all its predictabilities, Mr Corder yet fleshes out this slender narrative with his customary sure craft in making dances. A quintet for the young; a tender duet for Margaret Barbieri and Alain Dubreuil as the boy's parents; the sustained atmosphere of the piece, are proof that exercises in nostalgia of this sort can still be made to pay theatrical dividends. There are subtleties of gesture and phrasing in the choreography that impress at a second viewing; performances from the cast are uniformly excellent, and given the pretty music, the attractive stage picture, the piece will prove an audience-pleaser.

About this closing triple-bill of the SWRB season, I have to record, with gorge still risen, that *Les Sylphides* has acquired a new piano-enriched orchestration. So blatant and be-tinselled is is that the ballet needs Liberace *en grande toilette* to play it as part of the stage action—perhaps tastefully located in the ruins of the set's chapel, with candelabra, coloured fountains and *yards* and *yards* of white mink. The ballet is already too mannered in performance; this new chain-saw attack on its qualities must be abandoned forthwith. If a different orchestration is needed, then let SWRB look to the Keller/Glazunov version used at the Mariinsky and by the Diaghilev Ballet.

A revival of Cranko's *Card Game* ended the programme. To remain as funny as it once was, wit must be substituted for romping. Cranko's jokes are physically acute, as Vincent Hantam and Stephen Beagley—two welcome recruits to the company—showed, and the generality of face-pulling and imprecise technique is no substitute for sharply-honed virtuosity of comic step.

Alastair Muir

Leanne Benjamin, Michael O'Hare, Lili Griffiths and Iain Webb in "The Wand of Youth"

Uchida's Mozart/Elizabeth Hall

David Murray

The first thing to be said is that it is not *just* Mitsuko Uchida's Mozart. She is performing all his piano concertos with the English Chamber Orchestra (sponsored by the Sumitomo Group of companies); the cycle began on Saturday, and continues through the season — tickets will soon be impossible to obtain. Miss Uchida conducts from the keyboard, facing her orchestra. (Other pianists without vanity occasionally do that, but the flip side of a DJ is dull to watch: the expressive Uchida back is quite another matter.) Thus the crucial solo woodwinds have the limelight, and in such searching performances as these the interplay between them and the piano is wonderfully heightened.

The central flute and oboe, Paul Davies and Neil Black, were creative and faithful partners. The other orchestral soloists will not be deprived, for throughout the cycle the concertos are being interleaved with chamber-band pieces. On Saturday we had Nielsen's disarmingly quirky *Serenata in vano* for mixed quintet (some slight mistuning was not part of the joke), and for almost the same group *Till Eulenspiegel einmal anders!* Strauss's *Till* comically reduced by Franz Hasenöhrl. His ruses for translating a big orchestral sweep into, say, violen and basoon are as often *peinlich* as funny; the brusque truncations—a bar clipped here, two there, five more there—are wittier.

In the Concerto in G, K. 453, the limpid dialogue of winds and piano in the Allegro was perfectly balanced; Uchida can be a genuine accompanist without losing personality. Her first entry was cut-glass, with a music-box left hand, the better to emphasise the emotional range that stretched ahead. She disclosed that with brimming imagination, always contained within the gracious temper of the movement (she can suggest a big dynamic scale without resorting to extremes). Of the second movement Mozart said firmly, "Andante, not Adagio" but Adagio it very nearly was, darkly shadowed and sustained with great intensity. Splendid, though I still think the ticking string-accompaniment' wants to go a notch faster. The variation Finale was brilliantly varied, with hairtriger switches of tone and tremendous exuberance.

The storms of the D minor Concerto, K. 466, were realised with hardly a fortissimo in the opening Allegro, and to powerful effect — hushed turbulence, precise anguish. Uchida's strict-tempo delivery of the piano's first lyrical paragraph was an inspiration (Girdlestone's advice to treat it like free recitative loses the momentum of many a performance). Here and in the Finale Uchida gave us grandly dramatic cadenzas—Mozart left us none—on a matching scale: perhaps the second, so late in the work, was too much of a good thing. Both the initial innocence and the later turmoil of the *Romanza* were transmitted with sharp subtelty, as equally the struggles and the sudden rocketting major-key cheer of the Rondo. This cycle is going to be uniquely vital, and should set a new kind of standard.

Saleroom/Antony Thorncroft

Charities' $10m windfall

While Christie's has secured the sale of the late Sir Charles Clore's furniture, and is building its first auction in Monaco around it on December 6, Sotheby's is to dispose of his pictures and portrait miniatures.

The miniatures are regarded as the finest collection to appear on the market for 50 years and will be disposed in two sales in London next year. The 400, mainly Continental, examples include all the pre-eminent names: Augustin, Isabey, Fragonard, Boit and Fuger.

On December 3 in London Sotheby's sells the Impressionist and modern pictures from the Clore collection. The most valuable should be an early work of 1891 by Paul Signac, a pointillist scene of fishing boats entitled "Brise, Concarneau." It is likely to make more than £400,000.

Other important paintings include "Deux personnages," by Picasso (estimate £330,000-£380,000); a Fauve still-life of fruit by Maurice de Vlaminck (£200,000-£250,000); a Sisley view of the Seine (estimate around £200,000), and a Ben Nicholson of 1948 "Rooftops at St Ives," (estimate £60,000-£70,000).

Among his sporting pictures, to be sold on November 20, is a Ben Marshall of the 1827 Derby winner, Mameluke. It made £40,000 at the Dick sale in 1973 but is now valued at up to £300,000. Two paintings by Sir Winston Churchill will be offered on November 13. Together with the furniture, Jewish charities stand to receive over £10m from the sale of Sir Charles' works of art.

The most interesting auctions in London this week are tomorrow, when Christie's sells the second part of an important collection of ancient coins and Sotheby's holds an evening auction for the benefit of the Aldeburgh Foundation.

The most valuable coins are an aureous of Pescennius Niger, struck around AD 193 and estimated at £25,000-£35,000, and a multiple solid of Constantius II, one of a series of medallions celebrating the establishment at Constantinople of an administration based on that of Rome (estimate £15,000-£20,000).

The highlights of the auction in aid of Aldeburgh are a study of clouds by Constable and a Rodin bronze, "Trois Faunesses," both donated by Sir Peter Pears. Each should make around £20,000.

Mahler, Vienna and the 20th century

Shell UK, Patek Philippe and the Union Bank of Switzerland have brought the total sponsorship of the London Symphony Orchestra's *Mahler, Vienna and the Twentieth Century* festival up to £135,000.

After the first part in the spring when attendances for the LSO concerts averaged 90 per cent the autumn cycle of the festival (total cost £450,000) has been launched with a full house at the Royal Festival Hall and all LSO concerts conducted by the music director, Claudio Abbado, sold out in advance.

Besides the Royal Opera's double-bill of operas by Zemlinsky, Schoenberg's brother-in-law, the autumn leg of the festival includes this month's opening of the exhibition devoted to the Viennese architect Adolf Loos. At the Oxford Museum of Modern Art until December 1, the exhibition will be seen in London at the ICA from December 12 to January 21.

On October 20 the Barbican's Cinema 2 shows TV films directed by Barry Gavin on the Second Viennese School, Shoenberg and Berg; while on October 23 *A Bask of Gold*, Michael Frayn's evocation of *fin-de-siècle* Vienna, will be coupled with a documentary on Gustav Klimt produced by Istvan Szöts.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

Oct 4–Oct 10

ITALY

Milan, Teatro alla Scala (autumn music season): Gianandrea Gavazzeni conducts Mendelssohn's violin concerto (Viktoria Mullova) and Bruckner's 6th symphony, Wed. (80.91.26).

Venice: Gran Teatro la Fenice: Sigismund Kuijken conduct Gluck's Orfeo ed Euridice (in the form of oratorio). Mon. (25.191).

VIENNA

Piano evening with Stefan Vladar. Haydn, Beethoven, Chopin: Musikverein Brahms Saal. (Fri). (658190).

Vienna Hofburg Orchestra conducted by Gert Hofbauer: waltzes and light opera. Soffiensaal. (Tue. Thur).

PARIS

India's South: Karnatic Music (Tue, 10.30pm). Radio France. (524 1516).

WEST GERMANY

Frankfurt, Alte Oper: There will be two lieder recitals with Dietrich Fischer-Dieskau, accompanied by Hartmut Höll with Schumann and Mahler (Sun, Tue).

NETHERLANDS

Amsterdam, Concertgebouw. Antoni Ros-Marbà conducting the Netherlands Chamber Orchestra, with Antonio Menesses, cello: Rossini, Boccherini, Elgar, Mozart (Mon, Tue). The Concertgebouw Orchestra with the Amsterdam Percussion Ensemble: Crumb, Mâche, Xenakis, Thu. (78345).

TOKYO

Vienna NÖ Tonkünstler Orchestra conducted by Atsushi Nukii. All-Mozart evening. Yuport Kanihoken Hall, Gotanda (Thur). (403 1290)

NEW YORK

New York Philharmonic (Avery Fisher Hall): Giuseppe Sinopoli conducting, Hei Kyung Hong soprano, Sinopoli: Lou Solome Suite (world premiere). Wagner, Brahms (Wed, Thur). Lincoln Center. (874 2424).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting. Tamas Varary piano, Barbara Bonney soprano & Chicago Symphony Chorus. All Mozart programme (Thur). (435 8122).

WASHINGTON

National Symphony (Concert Hall) Mstislav Rostropovich conducting Sibelius, Sallinen, Beethoven (Thur). Kennedy Center. (785 8110).

LONDON

Royal Philharmonic Orchestra, Antal Dorati conductor, Yan Pascal Tortelier, violin, Paul Tortelier cello, Maria de la Pau piano: Beethoven. Festival Hall, Tue. (928 3191).

FINANCIAL TIMES
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New directions at the IMF

IT IS EASY to get excited about the U.S. Treasury's new-found enthusiasm for international economic initiatives, the latest of which—on Third World debt—is being pieced together at the World Bank/International Monetary Fund annual meeting this week. It is less easy to judge whether this unexpected activism is likely to prove successful; for, while everyone can bemoan the present problems of the international financial system, there is less agreement on what the U.S. initiatives are meant to achieve.

On the single most important international imbalance — the nexus of problems connected with the U.S. budget deficit, the over-valuation of the dollar and the concomitant U.S. current account deficit — a profound ambivalence has long been evident among the world's leaders. The over-valued dollar has done a power of good for European and Japanese export industries and made a substantial contribution to the U.S. Federal Reserve Board's success in keeping inflation under control. Now that the dollar has started to depreciate, differences of opinion are already emerging about how much further the adjustment should go.

Surpluses

West German officials in Seoul are suggesting that they now regard the dollar as reasonably valued against the Deutschemark, while Mr Paul Volcker, the Federal Reserve Chairman makes no secret of his fear that further depreciation of the dollar, in the absence of major moves to cut the U.S. budget deficit, could do more harm than good. However, the U.S. industrialists and Congressmen who have been clamouring for protectionism may not be satisfied with the gentle reversal of the dollar's trend which Mr Volcker and his European colleagues have in mind. While the New York agreement on intervention certainly marked a step towards international economic co-operation, the serious part of the journey, involving adjustments in macro-economic policy on both sides of the Atlantic and the Pacific, has hardly begun.

On Third World debt, the absence of a consensus goes deeper still. The Reagan Administration has belatedly recognised that deflationary adjustment policies are unlikely to re-establish debtor countries' creditworthiness, even when they succeed in generating huge trade surpluses. Mr James Baker, the U.S. Treasury Secretary, is therefore calling on the World Bank to play a greater role, alongside the IMF, in designing longer-term development policies for the debtors. The object is to combine external adjustment with market-oriented policies and faster domestic growth. The general idea has much to commend it, but, as in the case of the dollar initiative, Mr Baker may not yet realise how many institutional and philosophical unheavals will be required before his plan can work.

The most obvious problem is that very large amounts of new money will be required to provide any significant relief from the debtors' external constraints. Even after an increase in the World Bank's capital, most of the new money will have to come from commercial banks. This may require more cajoling, or even legislative pressure, than anything seen in the debt crisis so far.

A more surprising obstacle could arise among the debtors themselves. After their bitter experiences of the past few years, many debtor countries see more security in protectionism and even autarky than in integration with the international financial system. They may only be interested in new financial flows, particularly ones conditioned on challenging domestic policy changes, if these flows wil clearly remain sustainable over a period of many years. The "short leash" approach, under which the debtors have to renew their pleas for new money each year, is unlikely to prove acceptable much longer. Yet, from commercial bankers' point of view, there could be fierce objections, to say nothing of regulatory and prudential problems, if it becomes clear that lenders must commit themselves years in advance to the sort of multi-year new money facilities which are likely to be required.

Such obstacles should not deter the world's leaders from pursuing energetically the sort of new approach to the debt crisis which Mr Baker has outlined. In principle, the problems are all soluble, given a willingness to compromise and accept a reasonable sharing of the financial burden by debtor governments, banks and governments of the creditor countries. As in the case of the macro-economic imbalances between the U.S., Japan and Europe, the existence of theoretical solutions does not guarantee the political will to put them into effect.

Braking China's headlong rush

CHINA has just seen the most public discussion of policy shortcomings among senior leaders since Deng Xiaoping eased Hua Guofeng out of office in 1981 because of the failure of his over-ambitious economic plans. Deng's fellow-octogenarian, Chen Yun, twice attacked the symptoms of "decadent capitalism," which he implied were the consequences of Deng's reform policies. Chen Yun concluded his first speech with what some have seen as a criticism of Deng's steamroller style, that "no individual should try to have the final say," and all decisions must be made by the collective.

Foreign observers are divided on whether this discussion is the tip of an iceberg of much deeper dissensions, or a healthy sign of a leadership maturing since the days of Mao and now able to accommodate differing points of view. It must be said, however, that China is still a country where criticism voiced publicly is milder than when it is made behind closed doors. Outsiders are left with the evidence of, at the least, a difference of emphasis at the highest levels in Peking on how China should tackle modernisation.

'Open door' policy

Peking's leaders of all hues, Chen Yun included, say they support economic reform and the "open door" policy. There is no suggestion that anyone seeks a return to Maoism and economic self-reliance. Chen Yun represents the conservative viewpoint which successfully stimulated China's economic development in the 1950s and opposed Mao's chaotic "great leap forward" of 1958. Deng's reforms have generated considerable problems, and the need for a touch on the brake is conceded by the leadership generally. But it seems unlikely that Deng will switch back to the emphasis on central planning that Chen Yun appeared to advocate.

Indeed, Deng was able to further his own cause two weeks ago by replacing a large number of elderly party officials with new blood. His chosen successors for party and government top jobs, Hu Qili and Li Peng, were promoted to the politbureau. In that key body he cut the conservative military element from nine to three.

With better management at the centre, there is more hope that the reform policies, which would be difficult, in any case, to implement in a country of China's size and lack of development, may win through. They have boosted agricultural production since 1979 to the point where most people have seen improvements every year in diet and dress. Deng and his team now have to get to grips with the confusion caused by last autumn's urban reforms which, by encouraging business initiative and decentralising power, have also promoted fraud and corruption on a significant scale.

The urban reforms generated problems of industrial over-production and strains on transport and energy resources. Foreign exchange reserves have been depleted to the point where Peking was apparently unwilling to publish its normal quarterly monetary figures, and Chinese ministries are openly arguing about the size of this year's expected trade deficit.

The most intractable problem is likely to be commercial crime and speculation among a people long-starved of the humblest consumer goods, who this year were able to import the electronic hardware that much of the world takes for granted. Initially this is being curbed by new regulations, but they are unlikely to be effective unless higher standards of public behaviour can be encouraged.

What China now needs is a stable leadership which will apply the reform policies in a pragmatic way without reverting to old habits of dogmatic infighting. Deng supporters have already slowed down the headlong rush into economic modernisation, as reflected in the cautious proposals for the next five-year plan. If, at the same time, steps can be taken to reduce corruption among senior party officials, the modernisation of China's economy stands a better chance of success.

THE BATTLE FOR ELECTRONIC MARKETS

Where the Stock Exchange draws the line

By Barry Riley, Financial Editor

WHEN DOES an electronic information network become a stock market? Does the information on that network need to be properly regulated? Those are the questions that have driven the London Stock Exchange to a collision course with Reuters, the international business information group which is busily building a screen-based price data and dealing system to serve global investors in equities.

In an unprecedented way, a combination of deregulation and technological development is threatening the framework upon which securities markets such as London's have been based. The markets are being forced to restructure their trading systems and reconsider the ways in which they communicate with their clients.

In London, business has traditionally been transacted by means of time-honoured rituals conducted on a trading floor but all this will soon be scrapped, except for a minor element of the smallest transactions, in favour of a system based upon telephone conversations and digital pulses, with no particular geographical boundaries.

These days there is already an active market in Continental equities in London and many UK equities are traded in volume in New York. As a result, there are extra opportunities for international information networks like Reuters, not only in terms of transmission of data but also, potentially, in the central activity of the trading of securities.

The Stock Exchange's fear is that this will fragment the central market place and dilute it regulatory authority.

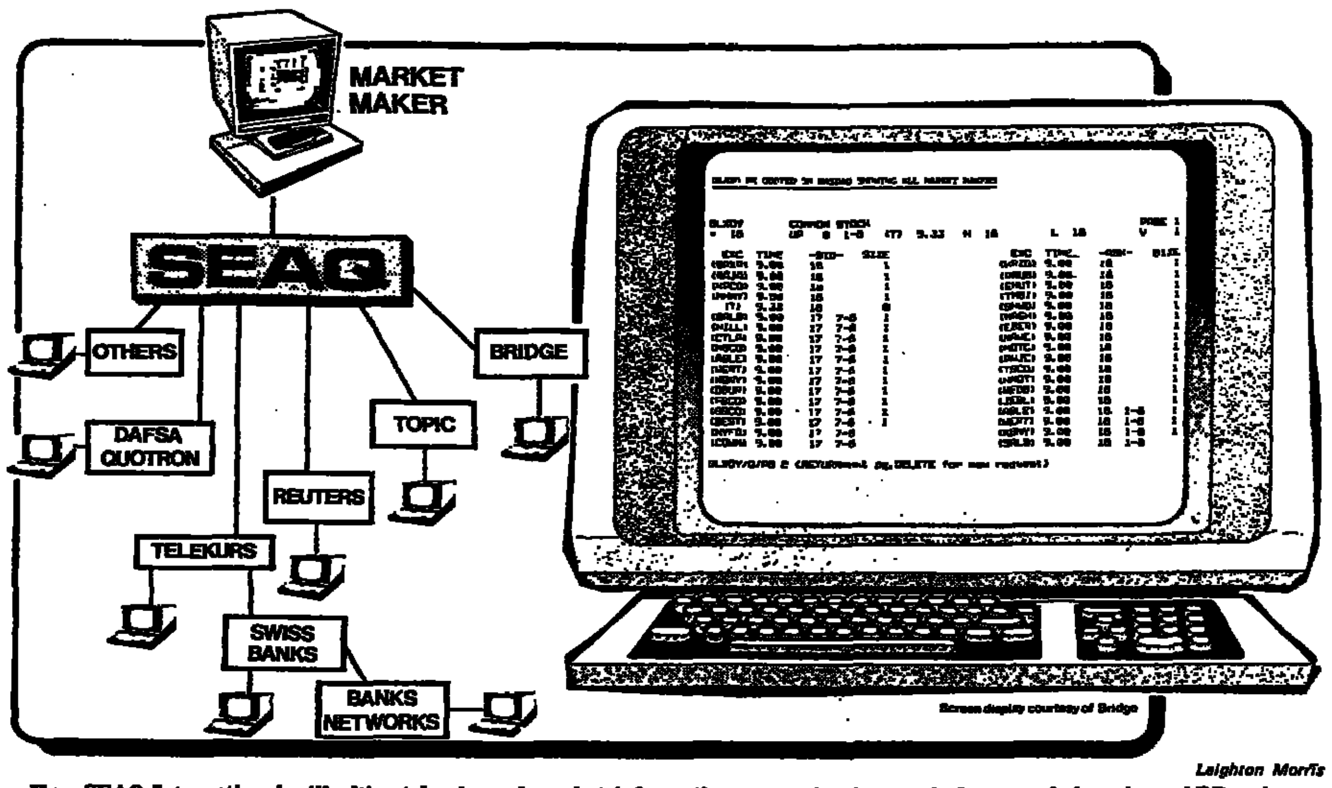
Despite intensive negotiations covering many months, Reuters is still jibbing at an elaborate list of 12 conditions which the Stock Exchange is seeking to impose before allowing it access to the price quotes of market makers carried on its real-time market information service, Stock Exchange Automated Quotations (SEAQ).

Although SEAQ, covering domestic stocks, will not become operational before the Stock Exchange's trading system is restructured in a year's time, a version covering foreign stock called SEAQ International is now being rapidly developed. A restricted service is already available on the Topic screens of the Stock Exchange.

Topic is the Stock Exchange's own information service, which until now has carried a mixture of news and indicative share prices. There are currently 3,500 terminals out with member firms, institutional investors and the media.

By the end of next year 6,000 terminals are expected to be in place, reflecting extra demand for the detailed displays of quotes of competing market makers and details of trades which SEAQ will make available—at least for first line or "alpha" stocks.

Hard on the heels of SEAQ International, last month Reuters launched a series of composite pages on its service. These include quotations for international equities from a number of competing market makers. But the Stock Exchange has refused member firms permission to contribute to these composite pages, on the grounds that it would be inappropriate to mix up member and non-member firms. There is no question of any quotations for domestic equities being made available at this stage.



Leighton Morris

How SEAQ International will ultimately channel market information and (right) a typical page of American ADR prices

The irony is that some of the contributors to SEAQ International are also non-members of the Stock Exchange. But it is argued that these firms—including Bache Securities, European Banking Company and Goldman Sachs—have all given an undertaking to join the Stock Exchange as soon as membership is opened up. In the meantime, they are subject to a code of practice.

The conditions laid down by the Stock Exchange also include requirements that all quotations should be carried without exception, that the information should not be used on an execution system, through which bargains can be transacted electronically. This is also relevant to Reuters, which is planning to introduce the Instinet electronic trading system to the UK shortly, initially covering only U.S. stocks. Instinet is a well-tried system which currently handles between 2 and 3 per cent of all equity trading in the U.S.

The Stock Exchange insists that it wants to do a deal with Reuters and points to the fact that other information networks such as Telekurs, used in Switzerland and Germany, and Bridge, an American system which has installed some 60 terminals in London during the past year, have accepted its terms.

But Mr Greg Moore, managing director of Bridge Data in the UK, says: "We have been able to comply but I am not happy with their conditions because I don't think they are in the intersts of the public. They are crazy trying to hold the fence around them for another year. Every day the market moves a little bit more to New York."

The pressure on the London market is illustrated by the current proposal by the Stock Exchange Council to allow access by the New York offshoots of member firms to the active Wall Street market in the ADR versions of major domestic UK stocks such as ICI, Glaxo and the current star BAT Industries.

ADRs—American Depositary Receipts — represent shares deposited with American banks, and are a convenient form of investment for U.S. institutions. Until comparatively recently, trading in ADRs was on a limited basis. Member firms of the London Stock Exchange have, in effect, been banned from dealing in them because of the danger of fragmenting the central market in London.

But the Stock Exchange is faced with the frightening development that trading in New York in some leading stocks like ICI and BAT is now more active than in London. These markets are now becoming tempting in terms of price and liquidity for British investment institutions, which have previously rarely dealt in New York—and then only as a way of avoiding the stamp duty charged on London transactions.

Screen systems like Quotron, Bridge and, soon, Reuters' Instinet are giving London investors easy access to the New York market — and New York has just altered its opening time, advancing first dealings to 9.30 am (2.30 pm London time) to encourage international business.

Meanwhile, there is a rapidly developing local business in London in international equities on an unofficial over-the-counter market including the ADR versions of UK stocks (which continue to be banned from the Stock Exchange's Topic screens).

Is the Stock Exchange misguidedly playing Canute against this tide? Mr Peter Benjamin, special projects manager of Reuters Europe, thinks so. "By not permitting the composite display, London members will be disadvantaged," he claims.

In any case, Reuters points out, the software will soon be available for users to reprocess data so as to reproduce prices from several different pages on one screen. They will then be able to create the composite pages that the Stock Exchange is prohibiting.

Mr Peter Cox, project manager for international markets at the Stock Exchange, quickly deflects such criticism. "If a subscriber does this, he knows what he is doing," he argues. "The important thing is to make sure that the publicly available display conforms to a code of conduct. What the user subsequently does to the information is less important."

The Stock Exchange is preoccupied with questions relating to its regulatory boundaries, and the need to impose guaranteed quality standards which can be recognised by the user.

Screen-based quotation and execution systems can be plagued by a variety of hidden snags. The quotations may get out of date; they may be valid for different sizes of transactions; different currencies could get mixed up; and settlement arrangements may vary. When it comes to actual execution, the question of credit risk also needs to be carefully tackled, because users need to be confident of the ability of the counterparty to deliver.

Some markets are free-and-easy and still succeed, like the Eurobond market. Anybody with the right telecommunications equipment can join. But the London Stock Exchange is very different. It has an intricate rule-book, its member firms aretightly supervised, and there is a compensation scheme to protect users of the market.

Last week the Stock Exchange Council introduced a package of new rules in preparation for the restructuring of the market. It ordained that "substantial outside investors in member firms should be regulated by the Council" and that such external members would have to file extensive information about their constitution and activities.

These external members, which will include many banks and international securities groups, were warned: "Sanctions may be imposed under the rules if an external member fails to fulfil its regulatory obligations."

In this context it i s easy enough to see why the Stock Exchange is reluctant to allow its members' quotations to be mixed up with those of other Reuters contributors, which might be regulated by other authorities or which might be regulated by no-one.

Reuters counters with the argument that professional users of its system are capable of looking after themselves, and will quickly establish the reliability of service they can expect from the various competing market makers. Moreover, the Stock Exchange will still have control over the quality of quotations supplied through the SEAQ feed and the trades themselves will still go through member firms of the Stock Exchange.

Even Instinet, says Mr Benjamin, is only an order entry system. It replaces the telephone, but is not in itself a stock exchange.

Mr Cox is not quite so sure. "What is a stock exchange? That is the issue," he says "We need to work through these questions."

While the Stock Exchange stalls, the information services are trying to put the pressure on. Mr Julian Costley, equities manager for Reuters Europe, threatens that the insistence on a separate display "could well relegate members' quotes to secondary pages."

He also claims that failure to supply prices to Instinet, which may open up a European service next year, would be counter-productive for London. "Without the SEAQ information LSE member firms will tend progressively to be denied the order flow which would result from those quotes being included in the Instinet share trading system."

At Bridge Data, Mr Moore complains at the scarcity of information being generated by London and contrasts it with the huge volume of data on prices and volume available to users of the New York markets. He claims that investors in London are now getting used to the much superior speed and transparency of trading in New York.

But the London Stock Exchange is working at its own pace according to its own timetable, dominated by the still unfixed date of the "Big Bang" late next year.

It is involved in discussions on technology with the New York Stock Exchange and the over-the-counter market NASDQ, as well as with Amsterdam. Automatic trading systems are certain to be developed, but the Stock Exchange will resist being hustled into precipitate decisions by independent networks like Reuters or Bridge (which also has a screen-based execution system up its sleeve for launch at an appropriate moment).

Options being explored include an independent automatic execution system for the London Stock Exchange itself, or a joint system operated with other exchanges. Or, of course, satisfactory deals may eventually be struck with the independents.

The relationship with independent information services like Reuters is inevitably an uneasy one, but both sides acknowledge that they have common interests. Reuters has quality information and is not the network, but needs high itself prepared to act as a regulator. The Stock Exchange has the rule-book and the means to impose it, but cannot be sure that its own Topic screen system will reach the international market place into which its members will increasingly be selling.

The basis is there for a deal, but the terms are still very much up for negotiation. "We continue to talk," says Mr Cox.

Men and Matters

Gunn running

John Gunn is back in town. He returned at the weekend from a holiday in Switzerland after resigning from Exco, the financial services company he created.

All last week the City was buzzing with speculation about why he had left. Gunn, 43, is, after all, regarded as one of the most dynamic entrepreneurs in London's financial community. In the stock market on Friday it was suggested that he had quit because he had wanted Exco to take over Midland Bank. "Rubbish," he tells me.

Gunn has been equally surprised to hear his name linked with Gerald Ronson's Heron Corporation, Hanson and Smith Bros in possible future business association. "Obviously, I have not decided quite what I want to do. I have had three extremely interesting offers."

From financial services groups? "One of them just about squeaks in that category," he says.

He adds: "I am not looking to be chairman of this company or chief executive of that. I just want to work with people I like." He dismisses earlier suggestions that he might be interested in forming a venture capital company.

"You can forget that. I am perfectly happy in big companies but I am not looking for a job necessarily in the same salary league as at Exco." He was earning £223,000 a year.

So why had he left Exco then? "It had reached a hiatus period. I knew the way I wanted to go and my ideas are iconoclastic. I felt that what I wanted to implement would not have got the majority support of the board. They will probably do things at a lesser pace."

In leaving Exco, Gunn has signed a non-competition agreement over money broking trading, Exco's core business, so his former colleagues may be able to get a comfortable night's sleep.

Wrong number

Newspapers get their information in many different ways. But the FT found a new one of Friday.

The facsimile machine in our Tokyo office suddenly spewed out six pages of "Private and Confidential" documents detailing terms for a HK$25m loan from a British bank to a British firm of stockbrokers.

Mr B.P. should check that his staff dial the right numbers in future lest any documents end up in less scrupulous hands.

Palme's fee

With the world's biggest public sector to finance, Swedes pay higher taxes than any other nation. And the latest victim to be caught in the revenue's finely-meshed net is none other than Prime Minister, Olof Palme.

Back in April last year, Palme gave a lecture at Harvard University and, as usual, turned down the fee for such an appearance.

Some months later, Palme's son, Joakim, began a term of study at Harvard and the University, without Palme's knowledge, used the fee to fund Joakim's scholarship.

The question of whether this money should have been declared as taxable income by the Prime Minister suddenly emerged during the recent general election campaign in which the question of taxation loomed large.

The tax authorities were due to make up their collective mind on the matter just three days before the election, but postponed a decision when Palme announced that he had supplementary information to supply.

It has now been decided that the SKr 40,000 (£3,500) should be treated as income; and, given that Palme is now paying 80 per cent tax on marginal income, fully SKr 32,000 (£2,800) of the fee is owed to the state.

Palme's Conservative opponents were promising to bring the average marginal tax rate down to 40 per cent if they won the election—but Palme probably considers the extra price of his victory worth it.

Of some note

It was a moment to savour. Imagine, if you will, the board of Tate and Lyle—say about 10 members—crowded round the chairman, in a tent on the Adriatic coast, serenading their dinner guests.

Well, that was the sort of scene on Saturday night when Italy's third largest company—the US$5.5bn turnover Ferruzzi agribusiness—erupted in song on the outskirts of Ravenna.

The occasion was Ferruzzi's first-ever meeting with the Press, an event of some note, anyway, for a company which is Europe's largest sugar conglomerate and which holds 2.5m acres of land in Italy, South America and the United States. (Price Waterhouse is preparing the empire's first consolidated balance sheet for next year).

The festivities got under way in earnest halfway through the dinner when one of the local waiters broke a plate and, in true Emilio Romagna tradition, began singing.

Before long, the waiters had brought out a guitar and were serenading Dr Raul Gardini, Ferruzzi's managing director, whose family owns the whole of the group. And then the executives joined in.

Italian guests tried hard to imagine Fiat chairman, Gianni Agnelli, or Olivetti chairman, Carlo De Benedettin, in such a relaxed mood. But it was too mind-boggling.

Ida Ferruzzi Gardini, wife of the managing director, pointed at the pinstriped group of singing executives and said simply: "This board of directors is so full of life."

Parking space

Soviet leader Mikhail Gorbachev's efforts to enlist Western public support for his views on arms-control issues are not the only signs that the Soviet Union is brushing up its public relations techniques.

The country is to use next year the decidely unusual venue of a theme park in southern Holland—a Dutch version of Disneyland—as a place to pulicise its activities in outer space.

Over the coming months, the USSR Academy of Sciences will be transporting 150 tonnes of assorted space hardware, including models of the Salyut-7 space station, to the park in Kaatsheuvel for a six-month exhibition starting in April.

A guiding hand in planning the exhibition, claimed to be the biggest display of Soviet space technology ever seen in the West, has come from Dutch journalist Peter Smolders, an authority on Soviet exploits in outer space.

The event, which has been preceded by years of negotiations between the Dutch and Soviet governments, will highlight the USSR's civilian space operations (the growing of crystals in orbiting workshops, for example) but draw a discreet veil over the military side of extraterrestrial activities.

Outlook

Heard in a City bar: "Life may begin at 40, but every other damned thing starts to wear out, fall out or spread out."

Observer

Foreign Affairs

It's a sin, a double sin to tell a lie...

By Ian Davidson

IN THE theatre of politics, the reaction of the audience is often as diverting as the act of the performer. What I have particularly enjoyed about Mr Mikhail Gorbachev's star turn in Paris last week, was the way right-wing commentators rushed into print to pan it. If they are so quick to rubbish him, the reasonable suspicion must be that he is doing rather well.

William Safire, of the New York Times, concentrated his attack on Mr Gorbachev's "Charm Offensive," both inside the Soviet Union and in his dealings with the outside world, on the grounds that it was totally lacking in credibility and would therefore backfire. On the one hand, his exposure on television showed that "he is not such a hot actor." On the other, some of the things he says in public, for example about the enviable position of Jews in the Soviet Union, are obviously untrue.

The editorial writer of Another Newspaper in London blasted Mr Gorbachev's proposal for a 50 per cent cut in strategic nuclear weapons on the grounds that it might be valueless, if not positively dangerous, in preserving the "counter-force" superiority of the Soviet Union's large land-based Inter-Continental Ballistic Missiles; at all costs, he went on, the U.S. must stick to its "Star Wars" anti-missile defence programme, because only this could rescue us from nuclear instability.

This is an eccentric argument on several counts. But the most significant point is that it is quite impossible to pass any judgment at this stage on the strategic implications of the consequences of Mr Gorbachev's offer. The details of the Soviet proposal have not been published, nor have they yet been shared with America's Nato allies; negotiations on these and the earlier American proposals are only just starting, and will certainly take months if not years; so it seems premature, to say the least, to make any sweeping assertion about the final outcome.

Sceptics will naturally assume that the Soviet opening position would be biased in favour of Soviet interests. But it takes two to tango, and even the sceptics must surely expect that the U.S. negotiators are as competent as their Soviet counterparts in safeguarding their own national interests.

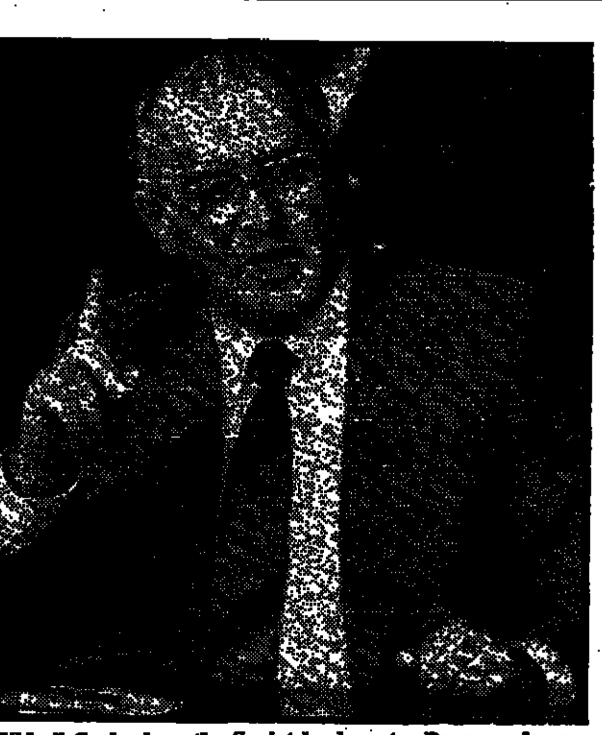
The *political* implication of a large reduction in strategic nuclear weapons is that it implies a retreat from, if not a renunciation of, any flirtation with the idea of extended nuclear war-fighting. Politicians and strategists have engaged in this flirtation, in the hope that nuclear exchanges could be limited and refined and controlled, so as to push out over the horizon the awful prospect of Armageddon. To this end, they have driven nuclear arsenals in the direction of smaller and more accurate weapons, to be able to strike military targets rather than large population centres.

But the chance that either side could in reality control nuclear strikes over any extended period is so small that it can scarcely be depended upon as a central policy objective.

In the first place, nuclear attacks would inevitably kill large numbers of civilians, especially in the Soviet Union, because their missile silos are near large population centres. In the second place, the command and control systems which would be essential to any controlled war-fighting are inherently fragile and liable to fall apart in conditions of nuclear war, even if they were not the object of deliberate attack—which they would be. On these grounds alone, some of the most influential recent strategic studies have concluded that the "controlled" period in a nuclear exchange might be measured in hours, not days, let alone weeks.

Daniel Ford, author of The Button, a new book on the Pentagon's strategic command and control system, carries this argument a whole step further. Not merely is the command and control system intrinsically fragile, American naval and air force officers simply do not believe in controlled war-fighting. Ford quotes a retired admiral: "The point is when you are attacked. . . . We will then shoot. But, by God, we're going to shoot and we're not going to sit there and Mickey Mouse it with option three and option four. We're going to take out the cities."

None of this means that the nuclear balance is unstable; on the contrary, both sides are deterred by fear of the horrific consequences. But the dislocation between theoretical objectives and operational probabilities is worrying, and that worry may be reduced if politicians adjust their theories to reality.



Mr Mikhail Gorbachev, the Soviet leader, at a Press conference at the Elysee Palace in Paris last week

Sceptics will assume the bias in the Soviet opening position. But it takes two to tango

A 50 per cent cut in strategic nuclear warheads would not by itself remove this dislocation: the numbers would still be too high for that. But it might force politicians and strategists to think more soberly about the irreducible function of nuclear weapons: to deter a nuclear attack by the other side. On the surface, the negotiations in Geneva will be extremely technical discussions of hardware and numbers of warheads and cruise missiles, of mobility and verification and encryption, in which each side will try to prevent the other gaining a prospective advantage. But below the surface, it will be an intensely political negotiation about the role of nuclear weapons in a long-standing adversarial relationship, and that negotiation will mainly be waged between different domestic constituencies.

So the first question that is posed by Mr Gorbachev's offer of a 50 per cent cut in strategic nuclear weapons, and by his remarkable speech in Paris last week, is a political, not a technical, question: does he mean it? Is he really willing to deliver on an equitable arms deal, or is this just superb public relations designed to embarrass the U.S.? What does he mean when he talks of "peaceful co-existence," of a "calm, normal international situation," and of "showing consideration for each other's interests"? Does this change of tone really indicate a change of policy, or is it just a very clever way of appealing to Western Europe's long-standing desire for a reduction in East-West tension, with the objective (despite what he says) of splitting the Atlantic Alliance?

Hardened hawks in America are almost bound to treat Mr Gorbachev's new line with the greatest suspicion, if not downright hostility. They will claim that since the Soviet Union ratted on detente in the 1970s by trouble-making in the Third World, there is no good reason to put any faith in Gorbachev's transparent attempt to revive the idea. Arms control failed in the 1970s, because American negotiators secured a lousy deal, because the Soviet Union went on building up its forces while the U.S. stood still, because the Soviet Union cheats, because, because, because . . .

In one sense, this suspicion is justified, at least in more moderate terms; in another, it is very dangerous if automatically given its head, because it amounts to a self-fulfilling prophecy. Yes, the Soviet Union played stupid and reckless games in the 1970s, just as it had done in earlier periods after World War II. But perhaps some people in Moscow have worked out just how stupid and reckless those games were, and what they produced: a six-year war in Afghanistan, President Ronald Reagan, the U.S. rearmament programme, and "Star Wars." It is not exactly a triumph for Soviet strategic planning.

Maybe the Soviet Union has not changed in any significant way, despite the promotion of a younger leader, and will always explore short-term manoeuvres for destabilising the rest of the world, regardless of the long-term consequences. But to make this the only conceivable hypothesis on the agenda is to box oneself into a position which has unacceptable consequences for the West. For it means that the only significant factor in the East-West relationship is an armed confrontation accompanied by a perpetual arms race; this is unacceptable, partly for obvious reasons, partly because the nuclear balance may not always remain stable.

Since it must be unacceptable for the West to restrict itself to such a fatalistic and ultimately dangerous policy posture, there is only one rational response to the new line laid out last week in Paris by Mikhail Gorbachev: extreme if cautious interest. Professional negotiators will, in any case, emphasise the caution; that is their job, and they are almost always over-cautious. Worst-case analysis is their favourite tool. But politicians should be bolder in putting Mr Gorbachev's ideas to the test.

One strategic analyst last week thought it was "a pity" that Mr Gorbachev went so public with his negotiating offer; better to have kept it confidential. This is a traditional bureaucratic view, but it may be wrong for two reasons.

First, by being explicit about all the constructive moves he says he wants to make—confidence-building measures in Stockholm, troop cuts in Vienna, chemical weapons bans in Geneva, on top of the nuclear weapons talks—Mr Gorbachev may be under increased pressure to make good in these different negotiations. Second, if Moscow *has* made a new, more moderate assessment of its interests in the East-West relationship, we now have a text by which to measure its future behaviour. Dutch pacifists may be over-impressed by a small reduction in the number of Soviet SS 20 missiles, but if Mr Gorbachev does not live up to his new line, the rest of the world will soon draw its own sad conclusions.

In short, Mikhail Gorbachev has given some hostages to fortune. If it amounts to nothing, his public relations show will backfire, and play right into the hands of the American hawks.

As so often, the immortal "Fats" Waller had some wise words to say on the subject:

Millions of hearts have been broken,

Just because these words were spoken;

You know the words that were spoken?

I love ya, I love ya, I love ya.
So be sure it's true, when you say "I love yooou!"

It's a sin, a double sin to tell a lie.

Now go on out there, and tell your lie—what is it?

Lombard

Decline of the steel barons

By Ian Rodger

THIS WEEK, the leaders of the world's major steel producers are meeting in London, but few people outside the industry will take much notice.

Partly, this is because the agenda of the annual conference of the International Iron and Steel Institute is, as usual, not exactly scintillating. One year, the assembled steel barons were treated to a speech on metals in space. This morning's session starts off with a lecture on "the world after the year 2000."

This is not to suggest that the IISI meetings are merely an excuse for the big steelmen and their wives to have a short holiday in a reasonably pleasant place once a year—Chicago last year, Vienna in 1983, Tokyo in 1982, Sydney in 1979. The IISI was set up in 1967 as a "non-profit, economic research organisation," and it regularly produces solid research on such worthy topics as indirect trade in steel and coal trade and transport. But like many such bodies, it was probably designed mainly to provide an annual opportunity for top steelmen to wheel and deal informally without having to worry about anti-trust lawyers and the like.

These conferences have often provided lots of opportunities for the steelmen to steal the headlines. It was at IISI conferences in the 1970s that U.S. steelmakers first started to talk tough to their foreign counterparts on the problem of imports. And it was at the IISI conference in Madrid in 1980 that Mr Ian MacGregor, then the newly appointed chairman of the British Steel Corporation, threatened to start a price war in Europe. "You have not seen anything yet," he warned. "There will be mayhem." And there was.

The Tokyo conference in 1982 was the scene of frantic and furtive negotiations between the U.S. and European steel executives on a bilateral trade deal, with each side keeping in touch, when time zones permitted, with Brussels and Washington.

It was all good stuff while it lasted, but it seems to have come to an end, at least for a while. The state of the world's steel industry is such that there is little likelihood of any great rows or dealmaking at this year's conference in London or, for that matter, for the foreseeable future. For the truth is that this once mighty industry has been largely stripped of its power.

There was a time, in 1962, when a chairman of the United States Steel Corporation, Roger Blough, could even take on a U.S. President, John F. Kennedy, over steel prices, and the world trembled. And it was not so long ago that car makers and other big users would wine and dine their steel suppliers just to try and get enough tonnage to keep going. But today, world steel overcapacity is so great and so deeply entrenched that buyers everywhere can sit back and play one steelman off against another with impunity.

It was also not so long ago that international trade in steel was a minor and quietly managed part of the business. The U.S. topped up its needs by importing from Canada, and left the Europeans to supply their former colonies and other developing countries. In 1950, only 20m tonnes of steel were traded internationally. Now, more than 140m tonnes a year move around the world, and there are dozens of new and aggressive producers battling for bigger shares in a pretty flat market.

The result has been chaos in international markets, forcing governments everywhere to intervene with various types of production and import controls on steel. Last year, the U.S. government, for example, decided that total steel imports should be restricted to 18.5 per cent of the market, and proceeded to negotiate "voluntary" arrangements wih most steel producing countries. This year, the two big events on the steel industry agenda are the renegotiation of the 1982 U.S.-EEC trade deal and the renewal of the internal EEC restructuring programme.

But in both cases, the discussions are mainly between politicians and bureaucrats. The once mighty steel barons are mainly spectators, waiting to be told under what conditions they must operate. They still have lots to do, but at a much more mundane level, struggling like any other business to cut costs and make better products, as well as finding out what may happen after the year 2000.

Letters to the Editor

Changing the rates

From the Leader of the Council, City of Westminster

Sir,—Robin Pauley (October 2) points out that centralising the non-domestic rate would mean higher rate bills for many businessmen in smaller towns and cities. Not only the small-town businessman would suffer. There would be an increase in the rate bill for all those businessmen whose councils have been prudent enough to keep their rate levels down.

In many towns businesses are being progressively ruined by the level of rates collected by irresponsible local authorities. The answer to this problem is not to increase the rates collected in areas where councils have rated sensibly; it is to take action to reduce rates in the other areas.

This can best be done by setting a national norm for commercial rate poundages. Councils rating below the norm could have reasonable flexibility to increase the commercial rate. Those above the norm would be required progressively to reduce the commercial rate to that norm.

Increasing the commercial rate in the cities would only drive more business out of the centre. The social problems of this would be great. Moreover, the limited connection which does now exist between local authorities and their businessmen would be destroyed. What local government needs is more accountability, not less—and the commercial ratepayer needs lower rates, not higher.

(Councillor) Lady Porter,
City Hall,
Victoria Street, SW1

Accepted wisdom

From Mr C. Beattie, QC

Sir,—There are two apparently accepted pieces of financial wisdom, one quite different from the other, both of which I am unable to understand.

It is said that industry is acting very wrongly in giving its employees pay rises of 9 per cent when inflation stands at only 6 per cent. Industry may be acting foolishly in paying more than it can afford if it is to remain competitive, but pay increases of 9 per cent, which will be reduced by tax and national insurance to about 6 per cent, do not bear criticism by reference to the rate of inflation.

Many people are urging the Government to take steps to reduce the value of the £ so as to help our exporters. If that is done, our importers will suffer, prices will rise in this country, and before long our exporters, bearing increased costs at home, will again ask for a reduction in the value of the £, and so on *ad infinitum*. I regret that the £ does not now stand at $4 as it did for many years, but at least let us refrain from forcing it down below its present level of $1.40.

C. N. Beattie.
24 Old Buildings,
Lincoln's Inn, WC2

Industrial training

From the Group Training Director, Aylesbury Industrial Group Training Centre

Sir,—It was with much consternation I read (September 30) that the Manpower Services Commission is to study one of the greatest problems about industrial training—How It Should Be Financed.

Surely on the statute book is the 1964 Training Act which laid a levy on industry. The seven statutory training boards that we have in 1985 should be given the opportunity to charge that levy to all companies in scope, with no exemptions whatsoever. This is the only way the employer is going to finance industrial training.

It really is amazing that we are going round the circle once again. The sad part about the article is that a report is not going to be made until the autumn of 1987, two years hence.

Is it going to be another two years before we start training again our skilled craftsmen and technicians?

W.E.G. Woods,
Gatehouse Close,
Aylesbury, Bucks.

The FT-SE index

From the Chairman, FT-SE Index Steering Committee

Sir,—There have been some critical comments on the FT-SE Index Futures Contract. These include assertions that it is inaccurate because it uses Topic prices which may not be dealing prices and that it does not track investors' portfolios closely because it is weighted towards a few large stocks.

By inference, a broader index on reported trades would be favoured. Since trade reports do not exist, the point is academic until the new market comes into operation; but even if they did exist a widely-based trade report index would be a very poor indicator — prices for active stocks are more recent than for inactive stocks. The result would be worse than a quotation based index such as we now have. Even with a quotation based index, however, the problem of timeliness is significant and it is for that reason that the FT-SE index is based on market leaders. The quality of the price data on the second line stocks would not support, for example, the FTA-All Share Index as an intra day index.

In fact the divergence between the FT-SE and the All Share over periods up to, say, a year is small, and there is every reason to have confidence in the FT-SE as a fair indicator of the movement of the market.

When the new market comes in, the quality of price quotations will improve because they will be firm and not indicative. Market makers will be less inclined to leave prices unchanged when they have not been tested and it could be that a broader based index would be feasible. I believe, however, that confidence in the FT-SE will continue to grow, provided that its structure and function is properly understood.

J. A. Miller.
Stock Exchange, EC2.

Selling in English

From the Chairman, Anglo-German Association

Sir, — I recently attended the 25th Young Konigswinter Conference in Berlin where some 70 well educated young people from Germany and UK met to discuss problems common to both our countries. The proceedings were conducted almost entirely in English — spoken fluently by all the German participants, as les than a third of the British group had any knowledge of German at all.

Figures recently published indicate that of those industries engaged in exporting to our biggest European market, Germany, much less than a third speak any German and all too often their sales literature is printed in English only. At the recent national conference on German language teaching, Baron von Wechmar, the Ambassador of the Federal Republic of Germany, pointed out that there are over 100m Europeans who speak German and they can best be persuaded to "Buy British" if the advantages are explained to them in German: "Sell British but in German" said Baron von Wechmar. And how much more could we sell if our salesmen spoke even a little German.

They now have their chance to learn! The BBC has just begun a series of TV and Radio programmes under the title "Deutsch Direkt" designed as an introduction to the language culture and lifestyle of German speaking people.

(Air Commodore)
L. G. P. Martin.
17, Bloomsbury Square, WC1.

Local authority borrowing

From Councillor T. Eckersley

Sir,—Richard Evans writes on October 3 ("Why the City is so ready to lend to Liverpool") that "all the other rebel councils have set a legal rate." This statement is incorrect. The council of the London borough of Southwark resolved on May 30 on expenditure £9.5m in excess of estimated income. The rate, made at the same time, together with other sources of income, did not match estimated expenditure, contrary to the requirements of Section 2 General Rate Act 1967.

Most ratepayers are unable to form a proper view as to the legality of the rate since the information on the budget and rate, required by law to be provided to ratepayers, describes the deficit as "other financing options." No such options were selected on May 30 and none has been subsequently. Furthermore, by later growth decisions, the Council has increased the deficit to £11.3m.

(Councillor) Toby Eckersley.
Town Hall,
Peckham Road, S.E.5.

Valuable degrees

From the Director of Public Relations, Open University

Sir,—Probably unintentionally, Mrs Mallet (October 3) seems to debase the achievement of 70,000 graduates when she says "The OU is available to those who feel they must have a degree of some sort."

Of some sort? The OU degree is fully recognised as equivalent to those of other Universities. If this were not so, its teaching—open for all to judge—would certainly be condemned by academics elsewhere. The reverse is true: much Open University course material is gladly used by UK and overseas Universities in their own teaching.

As for employment prospects, a 1980 survey showed that 80 per cent of OU graduates claimed to have had job-related benefits from their study.

The fact that many students start their courses without A level qualifications lends greater credit to their eventual success, not less.

John C. Greenall.
Walton Hall,
Milton Keynes.

FINANCIAL TIMES

Monday October 7 1985

Terry Byland on Wall Street

Searching for fitter healthcare

LAST WEEK'S bloodbath in Wall Street's healthcare stocks was followed by a thunderous slamming of stable doors as some favourite horses galloped away out of sight. There can be no gainsaying the bearish implications of Hospital Corporation of America's (HCA) disclosures. But it is surprising that the major institutions were caught so obviously on the wrong foot.

The healthcare sector has been a favourite of institutional funds for several years, in view of its growth record of 10 per cent to 15 per cent annually, its noted appetite for credit, and the ready liquidity and tradeability of the shares.

When the HCA statement on its strategy for the next half decade hit the NYSE mid-week, the institutions sold healthcare stocks with a vengeance, wiping about $2bn off the sector's market capitalisation within a few hours.

After more than 15 years of exemplary growth, of never missing a forecast or disappointing its stockholders, Nashville-based HCA was saying that "the game is over," said Mr Todd Richter of Morgan Stanley.

Not over in a terminal sense, of course. There is still plenty of growth in the U.S. healthcare industry, and probably more on the international front. But over in the sense of steady 15 per cent annual growth on the back of debt-financed acquisitions.

Wall Street's shock was all the greater because several brokerage houses were still strongly recommending the sector. As recently as July, HCA said, in the aftermath of the failed bid for American Hospital Supply, that its three year $2.5bn expansion plan was "intact": no sign of trauma there.

Now, HCA, which operates the largest hospital chain in the U.S. with about 430 facilities, warns that profits will show very little growth (4 per cent, perhaps) this year and will be flat in 1986. Equally significantly, it is halving its capital investment programme to around $700m next year.

Until the bomb dropped, Wall Steet had been confidently looking for earnings gains of around 10 per cent this year and perhaps 26 per cent in 1986.

HCA blames the sudden reversal on its discovery, just before its statement, that hospital admission rates were continuing to fall. Its own rates had fallen 23 per cent over the two years since the Medicare rules were changed, or slightly more than the fall in the national average.

The Medicare change, which two years ago replaced cost-based hospital federal payments with a fixed scale, is old hat on Wall Street. Analysts should, however, have seen the second blow, which has come from the vigorous attack on the heavy costs of corporate medical schemes.

The HCA news means a re-appraisal of other healthcare stocks, most of which had been marked by Wall Street for further significant increases in earnings in the next two years.

American Medical International was looked for a 34 per cent gain this year, and a further 18 per cent next year, Humana for 12 per cent this time, and 18 per cent in 1986 and Charter Medical for 20 per cent in 1985 and 14 per cent next time.

Wall Street is already readjusting its views of these companies in the light of HCA's bombshell.

With conventional hospital admissions now a potential source of trouble, the search is for companies successfully positioning themselves in psychiatric treatment, in out-patient facilities, in new-style insurance schemes or tightly managed communal clinics.

Humana, number three in the industry, is likely to reap the benefits of its early moves into freestanding clinics and into health insurance policies via its Medfirst and Care Plus operations. Both continue in loss, but both also offer a way forward if hospital management facilities are no longer growth certainties.

HMC is applauded for "making the right steps," by stepping up its health insurance plans, with an investment of $20m intended next year. But it cannot escape its position as the largest operator of hospital facilities.

Charter Medical has established itself strongly in the psychiatric field – which is likely to become even more competitive as other companies move in. About one quarter of earnings come from Medicare patients, another weak spot.

The market's re-rating moves have already shaken out the earnings ratios on the sector stock prices. HCA, accustomed to trading at around the S & P 500 earnings ratio of 11.5, is now at about 70 per cent of it. But Humana is still trading a modest premium to the S & P 500 earnings ratio.

FORMER ARAB MONETARY FUND CHIEF ACCUSED OF EMBEZZLEMENT

Arabian loans group lost $70m

BY CLIVE WOLMAN IN LONDON

MR JAWAD HASHIM, the former president of the Arab Monetary Fund, has responded to accusations of embezzlement and of responsibility for losses of $70m from the AMF by saying that the losses were the result of precious metals dealings, which wiped out more than a quarter of the fund's capital.

A confidential official report prepared for an Abu Dhabi court accuses Mr Hashim, who has refused to attend the hearings, of forging telexes from contributing Arab states to the fund and of booking foreign currency dealing profits to himself.

The case, of which only sketchy details have so far been published, has drastically curtailed the activities of the $800m fund, whose headquarters are in Abu Dhabi and harmed its credibility among the oil-rich Arab states that are its chief contributors.

But Mr Hashim, an Iraqi now living in London, claimed in an interview on Friday that speculation by AMF officials in gold and silver in 1979 was responsible for the loss of $70m at a time when the fund's total capital was only $250m.

He admitted that he decided against immediate disclosure of the losses in the AMF's accounts. "How was I going to explain these huge losses without causing immense political damage to the fund when it was still only two years old?" he said. "I had two alternatives: to go to the board, dismiss those responsible and make a big fuss or to settle the matter in a quiet, dignified way."

He said that the charges brought against him and four of his former Iraqi colleagues at the AMF in an Abu Dhabi court hearing held in *camera* were the result of a "political plot" and a failure to understand the workings of the AMF. He would not attend the court hearings, he said, as he has no confidence in its impartiality or competence and has claimed diplomatic immunity. But he has offered to go to an international arbitration tribunal.

"Those petro-primitives in Abu Dhabi have a vendetta against me and against Iraq," Mr Hashim said.

He added that he has not been allowed to see the confidential report which was prepared for the court by officials from the Audit Bureau and the central bank of the United Arab Emirates in Abu Dhabi. The 100-page report, which follows up an earlier report for the AMF by accountants Ernst and Whinney, contains two main allegations against Mr Hashim and other ex-AMF officials.

The first relates to the telexes that were sent to the AMF from member-states to confirm the date of payment of their contributions and their size, often tens of millions of dollars. The report alleges that Mr Hashim and his associates would alter the dates of payment on the telexes by moving them forward by several days. In the interim period, the money was paid into a separate account on which they earned the interest, the report alleges.

Mr Hashim denied on Friday that any secret accounts were used.

The accusation, he said probably resulted from a failure to appreciate the technical difficulties of transferring money from contributing nations to the AMF, usually via the International Monetary Fund, on which the AMF is modelled. There was always a two-day delay before instructions to transfer the money to the AMF were carried out, the said, and then there might be a further three-day delay because of the different weekends in the Arab world and the West.

He added that currency conversions in a period of rapidly fluctuating exchange rates may also have been responsible for discrepancies in the interest earned on the contributions from Arab states. The AMF uses an artificial currency, the Arab accounting dinar, which is linked to the IMF's Special Drawing Rights, which, in turn, are tied to a basket of non-Arab currencies.

The second accusation in the confidential court report is that Mr Hashim and his associates dealt in foreign currencies and precious metals, usually booking the profits to private accounts and the losses to the AMF. The report accuses several European banks of "complicity" in the dealings.

Mr Hashim said that the accusation is a wilful misinterpretation of what happened. The investment department, he said, which was authorised to deal in precious metals, lost $70m in 1979 when gold and silver prices collapsed after they had bought many forward or futures contracts. But this event, he said, was not taken into account in the court case against him.

He decided that the loss would not have to be disclosed in the accounts if contracts were rolled over and financed by loans which would not appear on the balance sheet. Instead, the precious metal losses were realised over a period of three accounting years and in the accounts they were partially offset by foreign currency dealing profits. By these methods the losses were reduced by half. Mr Hashim said he was advised that this was a legitimate, albeit unorthodox, accounting procedure, as the AMF generally recorded its securities at cost price for balance sheet purposes.

As a result of the losses, Mr Hashim said he had removed some of the responsibilities from the head of the investment department and took advice from World Bank officials. "But did not the scale of the losses, as described by him, reveal grave defects in his management controls?

He replied: "I had no experience of banking before the AMF and I was not informed about this exposure. It is not the job of a president to be involved in day-to-day dealing. Nearly all Arab institutions lost money by investing in gold at that time."

Mr Hashim, who was the Iraqi Planning Minister and then personal adviser to Iraqi President Saddam Hussein before becoming the first AMF president from 1977 to 1982, said he was still on friendly terms with the Iraqi regime, which has been the largest borrower of AMF funds. "But it is always in the back of my mind that these primitive people in the Gulf may seek vengeance against me," he said.

Oil stocks at lowest pre-winter levels since 1976 IEA says

BY DOMINIC LAWSON IN LONDON

THE WEST is entering the northern hemisphere winter with oil stocks at the lowest pre-winter level since 1976, according to the International Energy Agency monthly oil market report, published today.

The reason is a wave of destocking by oil companies, with only 318m tons of oil held by OECD companies on October 1. This is almost 10 per cent down on the year-ago levels and represents the lowest figures for pre-winter company stocks since the IEA began its records in 1974.

The company stocks equate to 73 days of forward consumption, compared with the lowest recorded pre-winter level of 71 days in 1978, before the oil price shock in 1979 caused the world to take a less relaxed view of the need for stocks.

The IEA report said that its revised figures showed there was a drawdown of 500,000 barrels of oil a day from oil stocks in the OECD in the third quarter of 1985.

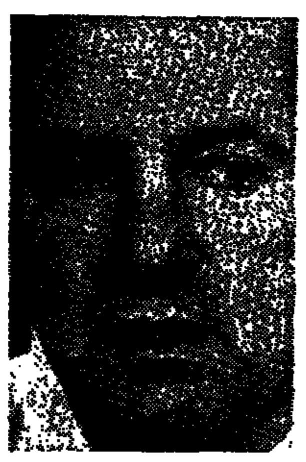
The low level of stocks is the main reason for the sharp rises in oil spot prices over the past two weeks. Demand was especially strong for immediate deliveries. In the two weeks to October 3 the spot price of Brent, the main North Sea crude, surged from $27.25 a barrel to a peak of $29 a barrel before the inconclusive Opec ministerial meeting last week.

The accelerating stock drawdown has confounded Opec nations' hopes of increasing their output quotas and the IEA report shows Opec crude oil production down to only 14.9mb/d in the third quarter, compared with its official ceiling of 16mb/d. The strain was primarily borne by Saudi Arabia and Kuwait. In the third quarter the unrestrained North Sea oil nations were, for the first time, producing more than Saudi Arabia and Kuwait combined, according to the IEA figures.

It was with this trend in mind that Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, last month called on non-Opec producers to cut their production or risk a price war.

OECD oil consumption in the second quarter was 3.5 per cent below the level in the same period last year, while in the third quarter the year-on-year consumption decline slowed to about 2 per cent. Nearly half the decline in European oil consumption in the second and third quarters of 1985 can be explained by the ending of the UK pits strike, the report said.

But even if the unusual fuel oil demand during the miners strike is deducted, underlying fuel oil consumption in the OECD as a whole in the year to June 1985 was 12 per cent down on the comparable period. This shows the extent to which fuel oil is continuing to be displaced by alternative energy sources, particularly nuclear.



Mr James Baker

Waiting for Godot in Seoul

Continued from Page 1

What nobody disputed, except perhaps Mr Clausen, was that Mr Baker was bringing an air of hope to a meeting long inured under the Reagan Administration to American indifference. This sentiment was particularly prevalent among the representatives of the developing countries, although certain commercial bankers, whose new lending to the Third World has been conspicuous by its absence, looked a bit worried.

The British presence was, of course, noticeable for a couple of heavyweight abstainers. Mr Nigel Lawson, the Chancellor of the Exchequer, had let it be known months ago that he would not come, officially pleading the coincidence of the UK Conservative Party conference but actually disguising a distaste for these sorts of confabulations

The other apparent no-show was Mr Robert Maxwell. The proprietor of Britain's Daily Mirror newspaper had indeed booked a room and planned to descend on Seoul to give the finance ministers of the world the benefit of his advice, but, at the last moment, cancelled his trip.

Thatcher will try to dispel doubts over long-term policy

Continued from Page 1

gutter politics." This is likely to be the general view of Tory MPs but there are fears that the book may reveal frank and critical comments about Mrs Thatcher and her Cabinet.

In the conference itself, the leadership will be concerned to answer internal party worries. In particular, Mr Nigel Lawson, the Chancellor of the Exchequer, has been devoting a large amount of time to his 20-minute speech on Wednesday afternoon following a much-criticised performance last year. This is why he decided not to go to the IMF-World Bank annual meeting in Seoul, which is normally one of the major dates in the Chancellor's calendar.

No major policy statements are expected since the Cabinet is in the middle of its annual review of public spending plans and of difficult decisions on rates (local property taxes) reform and social security. However, all ministers like to be able to give some indication of future thinking to attract conference and media attention.

There will be considerable interest to see how Mr Tebbit's certain ovation is capped by other likely eventual leadership contenders – Mr Peter Walker, the Energy Secretary, and Mr Michael Heseltine, the Defence Secretary. Senior Tories were yesterday not taking seriously the suggestion by Mr George Gardiner, the Tory MP for Reigate, of a "back-stabbing" conspiracy by landowner grandees against Mrs Thatcher's leadership.

The conference will also see the emergence of Lord Young, the new Employment Secretary, onto the centre stage, both in replying to the employment debate and in giving the major Conservative Political Centre lecture outlining his ideas on job creation.

The leadership will, however, come under pressure to take more action to cut unemployment if the Tories are to win the next election.

Mr Tebbit was deliberately cautious yesterday in his comments about the economy. He declined to forecast that unemployment would be lower by the next general election. In line with recent comments by Lord Young, he questioned whether the published unemployment figures might include a number of young people, who could find some kind of work if they really wanted to.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	23	73	Dubrovnik	S	28	79	Malaga	F	25	77	Salzburg	C	19	66
Akrotiri	S	27	81	Faro	S	23	73	Malta	S	27	81	Seoul	C	17	63
Algiers	S	27	81	Florence	S	25	77	Manila	—	—	—	Singapore	—	—	—
Amsterdam	F	18	65	Frankfurt	S	18	64	Miami	—	—	—	Stockholm	S	15	59
Athens	S	26	79	Funchal	F	23	73	Milan	S	23	73	Strasbourg	C	17	63
Bahrain	S	32	90	Geneva	S	19	66	Moscow	C	16	61	Sydney	[illegible]	[illegible]	[illegible]
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Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Third World debt plan

Continued from Page 1

phase of the efforts to deal with the debt problem something which will require that the borrowing countries are given some assurance that longer-term financing will be available to them.

The IMF says in its World Economic Outlook that the availability of finance is becoming a major problem for some developing countries.

According to Birtish officials, however, the IMF must continue to be a leading actor in the debt strategy to ensure that sound macro-economic policies are followed as the World Bank tries to encourage debtor nations to undertake longer-term structural adjustment in their economies.

Monetary officials are saying that at a meeting of the Group of Five leading industrial countries on Saturday night, "a good deal of satisfaction was expressed" about the initial reaction to the efforts to push the dollar lower, and in particular, to increase the value of the Japanese yen, announced on September 22.

But there is profound concern that as U.S. financing needs rebound in the fourth quarter against the background of rapid monetary growth, the whole process of dollar devaluation could go into reverse.

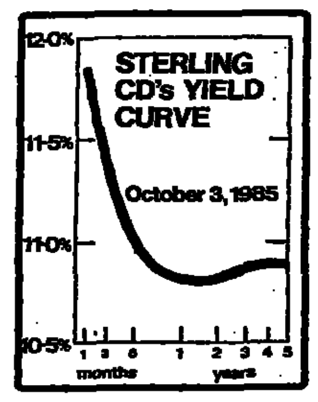
THE LEX COLUMN

No queues at the paper shop

Like motherhood, the sterling corporate debt market is universally considered to be a good thing. It counts among its enthusiasts the Treasury, the Bank of England, the Association of Corporate Treasurers and politicians of every persuasion. Yet, unlike motherhood, it has never really caught on.

The Bank's effort to revitalise the long-term fixed interest market in the early 1980's was rewarded with only modest success. The Government Broker obligingly left the long end of the market free for the corporate sector but treasurers were reluctant to commit themselves to a fixed funding cost for a period of up to 30 years.

Tacitly conceding failure in the long market, the Government has recently turned its attention to shorter maturities in the hope that treasurers would be emboldened to raise fixed-rate finance for between one and five years. The 1985 budget swept away the most conspicuous obstacle to the sterling note market – a provision in the Banking Act which seemed to confine regular issuance of short paper to licenced deposit takers and banks. Yet, six months later, the market is as dead as ever.



Tax barriers

Some corporate treasurers may simply be shy about raising fixed-rate money, even for a year or two, at a time of relatively high real interest rates. If so, they are not keen to admit it. The most commonly heard explanation for the market's failure is the presence of fiscal and administrative barriers.

The Inland Revenue stipulates the interest on registered notes – carrying a maturity of a year or more – must be paid after deduction of tax at source. While consistent with the treatment of gilt-edged, corporate treasurers argue that the Revenue line makes short sterling notes uncompetitive with certificates of deposit and Euro-sterling paper, both of which pay interest gross.

CD issuance is restricted to the banking system while, so the treasurers argue, the Euro-sterling market is expensive and cumbersome. The traditional buyers of Euro-sterling bonds are foreign investors, who prefer maturities of five years or more and have only a passing acquaintance with the UK corporate sector.

For a medium-sized British industrial company to sell short-term sterling debt to UK institutions through the Euro-sterling market, the whole structure of that market would have to change. Even then, the Bank of England would be lukewarm about the idea – on the grounds of investor protection – and institutions might rapidly tire of clipping Euro-coupons in Luxembourg.

Vigorous lobbying has so far produced no softening of the Revenue line. To exempt corporate issuers from tax sourcing would leave the Government Broker at a competitive disadvantage, while to exempt all short-term debt would mean conceding an important principle (and almost certainly depriving the Treasury of tax revenue).

The administrative obstacles to the corporate note market are less burdensome. The insistence that all issuing companies should be listed on the Stock Exchange or the USM still leaves a fair list of potential candidates, while the Bank and the Stock Exchange have gone a long way since the budget announcement to relieve the problem of documentation.

For the note market to succeed it must be possible for companies to issue small amounts at short notice. While it will be necessary for issuers to lodge full listing particulars at the outset, subsequent tranches should – as in the U.S. – require only a limited updating of the prospectus.

The Bank of England is understood not to be greatly impressed by arguments about tax and documentation. The biggest hindrance, in its view, is the level of interest rates and the corporate sector's traditional preference for floating rate funds. But there is no doubting its general commitment to the note market. To set against any worries about investor protection and the effect of large-scale disintermediation on the quality of bank loan books is the prospect of a lasting improvement in monetary conditions.

By containing monetary growth through consistent overfunding of the PSBR, the Bank has accumulated bill holdings of around £10bn, which effectively represent direct lending to industry. To the extent that corporate notes replaced bank debt and were sold to the non-bank private sector, the Bank would be able to run down its bill mountain. If, as seems likely, corporate notes proved less liquid instruments than bank deposits, the market would have the effect of slowing down the underlying rate of monetary growth.

It may be that a reduction in short-term sterling interest rates or a stern directive from the Treasury to the Revenue will set the note market in motion. But, for the moment, it seems more likely that corporate treasurers will meet their fixed-rate requirements – such as they are – through swaps and such like.

Having tried and tried again to promote a corporate debt market the Government may by now be wary of a third offensive. But the most promising avenue has not yet been tried at all. The development of a sterling commercial paper market would, in theory, satisfy everyone's requirements.

Commercial paper

The Revenue should have no objection in principle to the payment of gross interest on commercial paper of a year or less. The Bank would still see a benign monetary effect – though less marked than in the case of notes – and the corporate treasurer should be pleased twice over.

The CP market would enable a company to invest surplus liquidity outside the banking system at a time when blue chip companies look a sounder credit risk than one or two banks we could not mention. If U.S. experience is anything to go by, the same company could also raise short-term funds at a rate competitive with bank finance and with the minimum of fuss. As long as the sterling yield curve is pointing decisively downwards – as it is at present – the company might also reduce its cost of funds by borrowing fixed-rate for six months. And even the clearing banks – the only obvious losers – would be compensated by providing back-up credit to CP programmes.

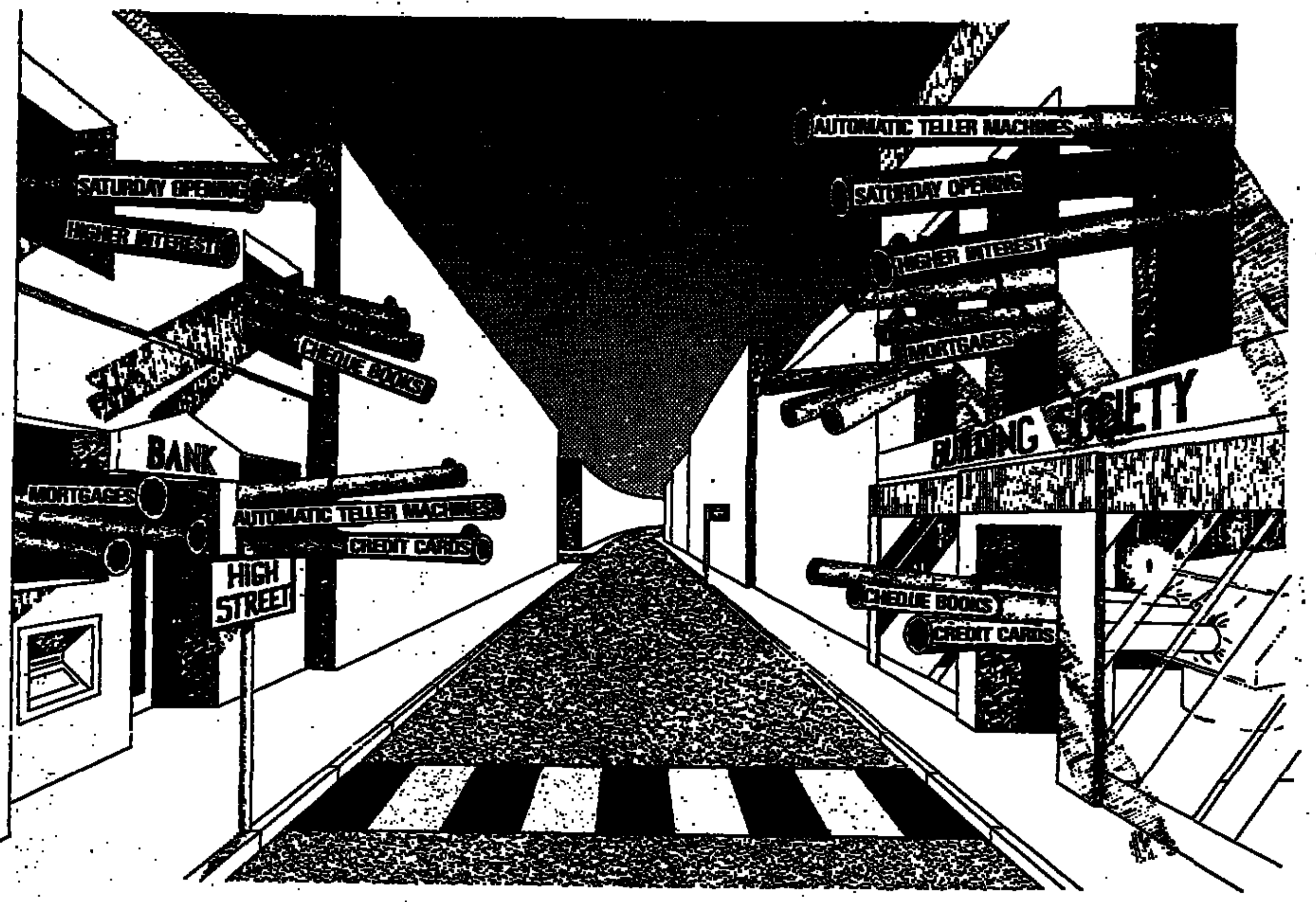
The introduction of a CP market would require changes to the Banking Act and, in the aftermath of the JMB collapse, the Bank may feel that it has more pressing legislative measures to pursue. It would also need a regulatory framework of its own and independent credit rating agencies to measure risk. But, if the note market fails to ignite, commercial paper may be the only answer.

SECTION III

FINANCIAL TIMES SURVEY

UK Banking

The need for the Bank of England to rescue Johnson Matthey Bankers has sparked off sweeping changes in the method of UK banking supervision. Meanwhile, there is greater confidence among the big clearers as they shape up to the City Revolution and competition for business from building societies.



In better shape to ring the changes

By David Lascelles, Banking Correspondent

IT WAS exactly one year and one week ago that the Bank of England announced to an astonished City that it had been forced to rescue Johnson Matthey Bankers, to spare the British banking system from disaster, and preserve London's good name as a financial centre.

It was not the sort of news that goes down well on a Monday morning, and the passage of time has not made it any sweeter.

JMB has guaranteed itself a place in the annals of British banking, not merely for managing to lose half its £500m loan book (the police are also investigating the possibility of fraud). It also dealt a damaging blow to the reputation of the Bank of England—a blow from which the Bank has yet to recover—and set off sweeping changes in the methods of UK banking supervision.

Politically, the affair was also an acute embarrassment to the Tory Government, since [illegible] deserving bank was seen [illegible] benefiting from £100m of Bank of England money at a time when countless small UK companies were on the brink of closure.

The relationship between the Treasury and the Bank still bears the bruises, and the more scandalous aspects of JMB are bound to affect public thinking about the way the City should be regulated.

The repercussions of JMB might seem out of all proportion to its size. It was, after all, an obscure bank which specialised in bullion trading, and it should arguably have been allowed to suffer the fate it deserved without bringing the rest of the UK banking superstructure crashing down with it.

However, the crisis blew up at a time when UK banks—like banks in many other industrialised countries—were looking rather fragile. There was the Third World debt crisis, the collapse of Continental Illinois a short while before and loan losses gnawing at bank profits.

Domestically, too, British banks were in the throes of great changes. They were under intense competitive pressure from the building societies who were luring away precious deposits and they were grappling with the enormous challenges—and risks—posed by the City Revolution.

To a banking supervisor, it was not the moment for a bank crash.

A year later, UK banking is still in the midst of historic changes, but arguably in better shape to deal with them.

The big clearing banks which are the pillars of the system have strengthened the foundation of their balance sheets with huge injections of new capital raised on the UK equity market and the Euromarkets. This has finally corrected the severe erosion of their capital in the late 1970s and early 1980s, caused by the dash for growth that affected all banks.

They have also continued to make large provisions against loan losses which should provide a useful cushion against future shocks.

None too soon, they have begun to mount a counter-attack against their new competitors which has led to a sharp revival of their fortunes on the domestic market. Thanks to a combination of aggressive marketing and more attractive pricing they appear to have at least halted the outflow of deposits to the building societies if not, actually reversed it in some cases.

This turnabout should help their funding. But it also marks an uncharacteristically determined effort by the normally sluggish clearers to fight back. This could be a sign of new attitudes in their executive suites.

Certainly, there is an air of greater confidence about the big banks, which is just as well since they will need strong nerves in the next year or two as the City Revolution gets under way.

All the clearing banks and the larger merchant banks are now deeply involved in putting together securities operations in anticipation of the opening up of the stock market next year and the Big Bang when deregulation of the UK securities business occurs.

Although the Revolution is essentially about reform of the Stock Exchange, the biggest players in it are not stockbrokers but the banks, which are putting together what are likely to be Britain's leading securities broker-dealers for the next several decades, and investing the greatest sums of capital.

NatWest and Barclays, for example, are each developing investment banking operations that will be capitalised at over £200m and will be active in all areas of the markets from stockbroking and jobbing to corporate finance and investment management. Merchant banks like S. G. Warburg and Kleinworts are assembling similar groups, though on a slightly smaller scale.

Whether they succeed will, most people believe, depend largely on their ability to blend different skills, and then live with the very un-banklike volatility that these operations are bound to experience. Many of them are certain to sustain heavy losses, and then it will become a matter of accepting the loss of face, and pulling out.

One may well ask why banks are assuming these large costs and risks. The most frequent answer is that they must follow the trend towards securitisation of lending, and be able to make capital market deals just as easily as loans. However, sceptics have noted the modishness of the City Revolution, and the pressure from Government and the Bank of England who want to see British-owned groups competing with the large U.S. investment banks, and securing London's place as the leading financial centre in the European time zone.

But if the Bank could be criticised for trying to hurry things along a bit in the early stages, it has adopted a much more cautious line recently. In a notable speech last month the (shortly to depart) Deputy Governor, Mr Christopher McMahon, spoke at length of the risks in modern-day banking: the dangers of ill-managed diversification, the instability caused by the poaching of banking staff with lures of high salaries, and the perils in many of the securities-based innovations now adopted by banks.

He spoke on the same day that the Governor, Mr Robin Leigh-Pemberton, dispatched a letter to banks warning them about their growing off balance sheet business (standby credits, commitments to underwrite Euronote issues, swaps etc). If banking is a story of successive crises, the Bank may be doing the banks a favour by pinpointing in plenty of time the likely successor to the property crash of the 1970s and the LDC (Less Developed Countries) debt crisis of the early 1980s.

However, the powers of moral suasion traditionally held by the

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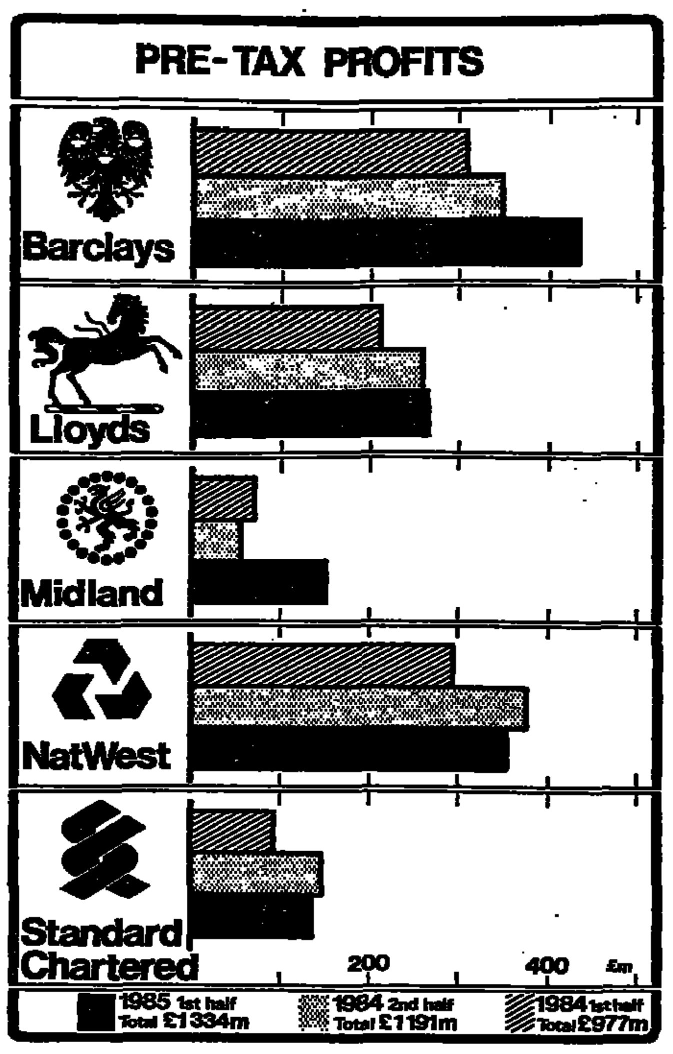
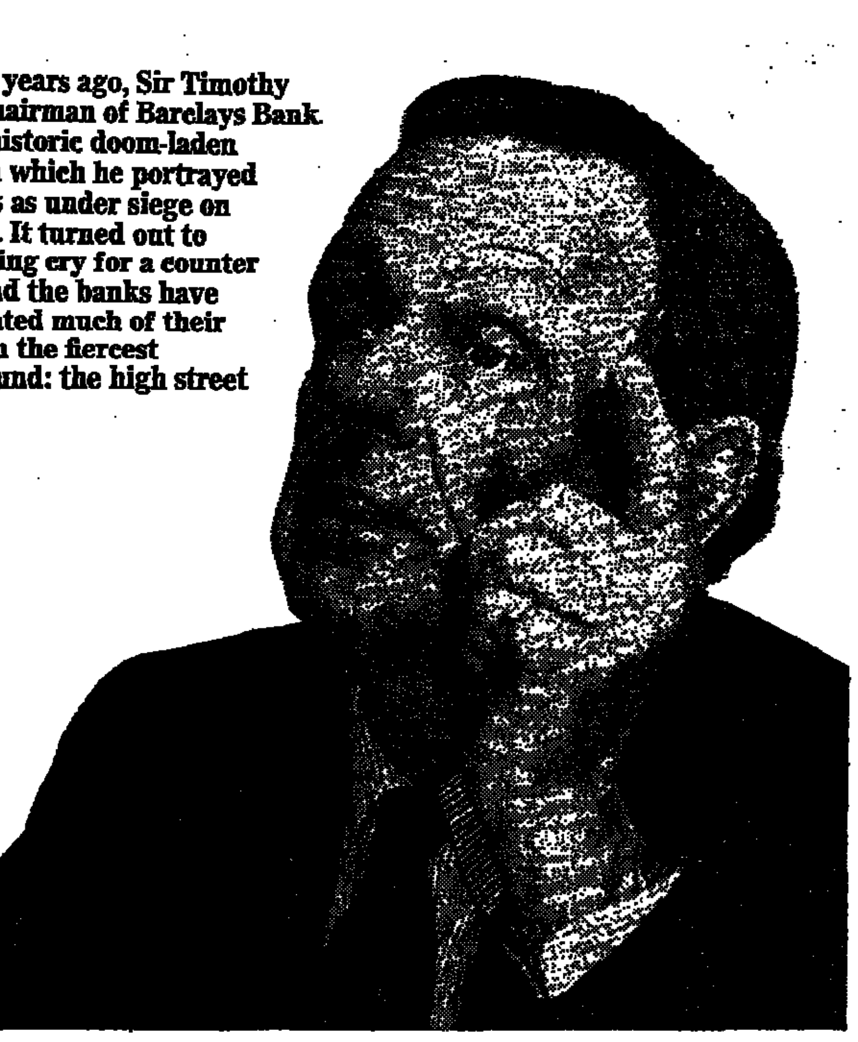
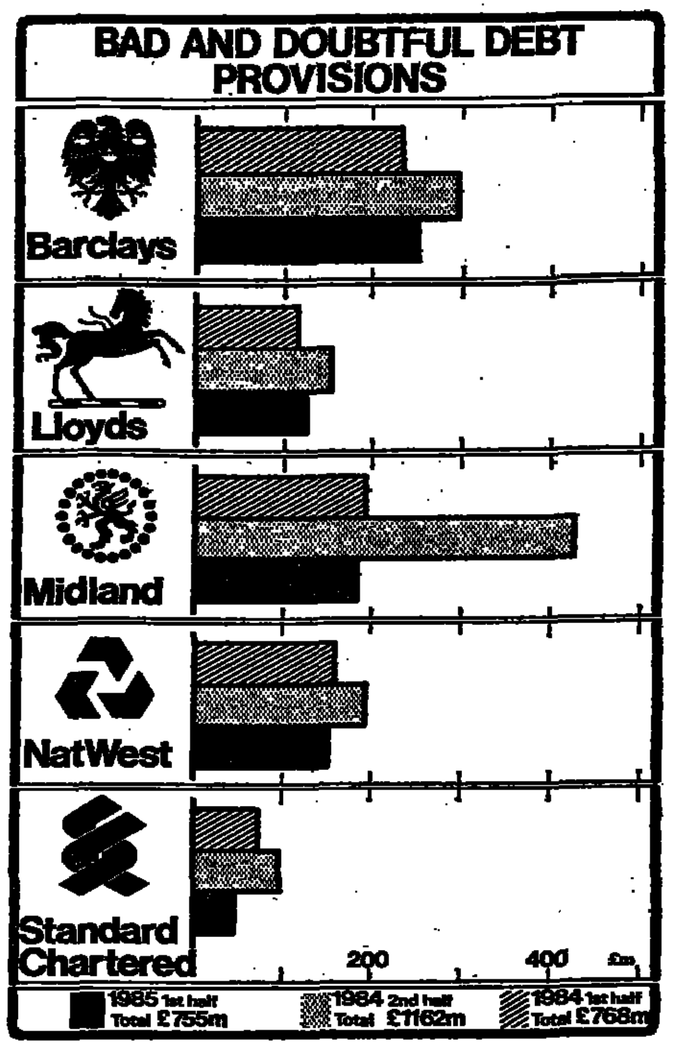
CONTENTS

UK BANKING 2



Only two years ago, Sir Timothy Bevan, chairman of Barclays Bank gave an historic doom-laden speech in which he portrayed the banks as under siege on all fronts. It turned out to be a rallying cry for a counter attack, and the banks have concentrated much of their gunfire on the fiercest battleground: the high street





Determined fightback shows signs of success

Clearing Banks

DAVID LASCELLES

BRITAIN'S big clearing banks frequently complain about being "put upon" by the unsympathetic world: taxation, unfair competition, over-regulation. But, for once, things seem to be going their way, partly because of a new determination to be masters of their fate.

The signs are all there. Since the middle of last year, which probably marked the nadir in the clearers' fortunes, profits have been rising, bad debts are on the wane, balance sheets have had a big boost of fresh capital, and the steady haemorrhage of business to those eager competitors, the building societies, seems to have been staunched.

Some may say the change has come none too soon, though it has been helped by the much healthier state of the UK economy. Only two years ago, Sir Timothy Bevan, the chairman of Barclays Bank, the biggest clearer, gave a historic doom-laden speech in which he portrayed the banks as under siege on all fronts. It turned out to be the rallying cry for the counter-attack.

The banks have concentrated much of their gunfire on the fiercest battleground: the high street. Using a combination of high interest accounts, more flexible opening hours and tariffs, they have finally begun to hold their ground in the savings and retail market. Behind the scenes they have also attacked their own costs and pursued a steady—though discreet—policy of trimming their sprawling branch networks.

In balance sheet terms, the banks have sought to reduce their sensitivity to changes in interest rates through the so-called "endowment effect." Although their endowment of "free" balances from current accounts has been dwindling, it is still considerable, accounting for about 30 per cent of their sterling deposits.

While this endowment brings extra profits when interest rates rise, it similarly cuts into earnings when they fall. By balancing these liabilities with more fixed rate loans and mortgages, this volatility has been reduced, and should enable the banks to cope much better with fluctuating money costs.

But that has not been the only balance sheet worry.

Pressure from the Bank of England to increase their capital, presented the banks with something of a dilemma since there was a limit to how much they could raise on the equity markets. Although Barclays made a £507m rights issue in April—one of the largest ever in the UK — the others (and Barclays too) took advantage of a novel idea pioneered by Lloyds Bank: the perpetual floating rate note.

Although this is debt rather than equity capital, the Bank permitted it to be counted a primary capital because it never has to be repaid. It carries interest which can be interrupted, and becomes preference stock if a bank gets into trouble. Altogether, the banks have raised more than $2bn in this form, and boosted their capital ratios to levels not seen since the 1970s.

Another sign of changing times is the opening up of the clearers' basic business—clearing—to more competition. This summer, the Committee of London Clearing Bankers disappeared after 160 years, to be replaced by the Committee of London and Scottish Bankers, which includes the Big Four, plus the two Scottish banks (Bank of Scotland and the newly merged Royal Bank of Scotland and Williams & Glyn's) and Standard Chartered Bank which has taken advantage of the restructuring of the clearing system proposed by last year's Child Report to become a clearing bank.

The conspicuous absentee is Citibank of New York, the first foreign bank to be admitted to the Clearing House. But the Committee is restricted to UK-owned banks. However, Citibank is expected to bid aggressively for UK clearing business—indeed, for a broad slice of the UK banking market as a whole.

By the end of this year the new system, which will allow any bank using clearing to have a say in its management, should be launched.

If the clearing banks have stopped the rot, the question now facing them is how to map their future at a time when all their markets are changing, with the trend towards securities services and financial supermarkets most marked.

There seems little question that their focus will be mainly on the domestic market — a change from the 1970s, when overseas expansion was all the rage. This has partly to do with the risks of international banking but also the opportunities presented by deregulation in the UK where the clearers, for all their past failings, are still dominant.

All of them have taken advantage of the City Revolution to get involved in the securities markets, though to varying degrees. NatWest and Barclays are hammering together huge "investment banks" combining stockbrokers, jobbers, investment managers and merchant bankers. (Although the banks like to stress their size, they represent to some extent the concentration of business that already exists within these banking groups).

Midlands, Lloyds and Standard Chartered are taking a more low key approach, preferring to acquire more modest operations or develop their own internally—a cautious line dictated by the risks that undoubtedly exist in the City Revolution.

Their aims are the same, though: to become major players in the international capital markets and, eventually, broaden the range of their retail services to include investment advice, management and execution for their retail customers.

Nobody can honestly say at this stage whether these strategies will succeed. The urge for banks to follow the shift from finance through lending to finance through securities is strong though, and so is the competitive pressure.

Securities would add yet another facet to the clearers' range of services, which now include insurance broking and underwriting, estate agency, and many others in addition to standard banking services. Whether this means they should now go all out to become financial supermarkets is a moot point, though.

The theory of a one-stop shop is appealing, specially if, as seems likely, banks will start merging with building societies when these become publicly-quoted companies in the next few years.

Mr Chris Clarke, of SRI International, the management consultancy firm which has been studying UK banking trends, doubts that consumers want financial supermarkets, and believes that banks may not be suited to managing conglomerate financial services because of their habits and corporate culture.

Profile: TSB

Set to take power

A BANK flotation is a rare event in the UK, especially one worth £1bn. The forthcoming public sale of the Trustee Savings Banks, scheduled for February, has already stirred up its share of political controversy and investor interest.

Although the TSB sale has been ordered by the Government, it differs from other public sector sell-offs in that the state does not own it. Nobody does. So the proceeds will stay with the TSB itself providing it with a capital boost that will completely transform this largely regional, retail bank into one of the most powerful institutions on the UK financial scene.

And that is precisely the intention of the Government, which wants to inject more competition into the banking business. However, the sale has run into strong opposition in Scotland, where the TSB originated in the early 19th century.

The Scots lobby has had to be pacified with promises that the TSB's Scottish business will not be run down, and that the group's annual meeting will be held in Edinburgh. This has not satisfied the Scottish nationalists who are still trying to block the sale, though their chances are not rated very highly.

Under its chairman, Sir John Read, the TSB has been working hard to make itself presentable for the flotation, which is being handled by Lazard Brothers, the merchant bank which managed the recent sale of Britoil and Dewe Rogerson, the advertising and public relations firm which promoted the British Telecom flotation.

A special share information office has been set up in the City to handle what the TSB hopes will be a flood of inquiries from potential investors.

Experienced bankers have been hired to beef up management, which was thought to be a bit parochially minded, and the TSB's image has been polished with a barrage of flashy advertising on TV and the billboards.

The TSB also wants to attract a large number of small shareholders (customers and staff will get priority) in order to preserve its essentially grass roots character.

The TSB has, proportionately, by far the largest retail business of any bank in the UK, with 6m personal customers and 18m accounts. But the group has also expanded into insurance, instalment credit, credit cards and motor rental, giving it a broad business spread.

On the banking front, the TSB hopes to build up a more even spread by expanding its branch network in the south where it is weakest, and gaining more up-market customers, and company business.

The major question, though is how it will deploy the £1bn it is expected to raise next February? Sir John cautiously deflects the constant questioning he gets about this. But he has said the money will go both to developing the TSB's existing business and possibly acquiring new businesses that have some association with what the TSB does already.

There will clearly be no adventurous sallies into new pastures. But the TSB is in an unusually strong position to become a financial supermarket for the man-in-the-street, if that much-debated concept appeals to it, which it appears to.

David Lascelles

In much better shape

CONTINUED FROM PAGE 1

Bank have dwindled since JMB—for which it has accepted part of the blame. A key question hanging over the banking industry is how successfully the Bank can re-establish its authority over the UK banks—and there are now more than 600 of them in London.

The departure of Mr McMahon, a highly regarded figure, is a major loss for the Bank. Nevertheless, it has taken the unusual step of replacing him, not with one of its own top officials but with the semi-retired Mr George Blunden, 62, an experienced former Bank official best remembered for sorting out the secondary banking crisis in the mid-1970s. The choice reflects the heightened emphasis given to supervision in the wake of JMB.

At the same time, Mr Leigh-Pemberton has remodelled the Bank's supervisory staff to enable it to cover the City Revolution more effectively.

These changes have been broadly welcomed as an indication that the Bank is moving with the times, even though they will mark a further erosion of the largely informal—and popular—methods with which the Bank has traditionally kept UK banks in order.

As such they mark something of a watershed in UK supervision, and many bankers regret the changes. But the growing complexity of banking along with the risks exposed by the JMB affair and created by the City Revolution probably make them inevitable.

Mr Robin Leigh-Pemberton, Governor of the Bank of England

The Morgan Bank brings U.K. corporations opportunities in world financial markets

Discussing a capital markets answer to a client financing need are Morgan officers, from left, Oliver Parr, Roderick Peacock, Alfred M. Vinton Jr., who heads the bank's London office, and Charles Dumas of Morgan Guaranty Ltd.

Today's credit and capital markets are growing—and growing together. The result: multinational corporations can choose from a wide range of financing alternatives. The Morgan Bank offers unique strengths that can help treasurers in the U.K. exploit these opportunities.

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Morgan corporate finance experts help clients plan and negotiate mergers, acquisitions, and divestitures. Through capital structure analyses, diversification strategies, and valuations, we advise on timing and financing alternatives.

We also offer traditional banking services, from lending in local and Eurocurrencies to bridge and term loans, project finance, foreign exchange.

Some examples of how Morgan serves U.K. clients:

☐ Morgan Guaranty Ltd was lead manager of the Hawker Siddeley Group's most recent issue in the Eurobond market. The $50 million issue—one of the few straight Eurodollar bond offerings made by U.K. industrial corporations in 1984—was combined with an interest-rate swap. This enabled Hawker Siddeley to refinance a major portion of its floating-rate debt at a margin significantly below LIBOR.

☐ We initiated and completed two interest-rate swaps for a major U.K. company. The first gave the client a floating interest rate at more than 400 basis points under LIBOR against a seasoned dollar fixed-rate convertible issue. Then, following a fall in interest rates, we unwound the first swap, locking in a gain of over $500,000 for the company.

☐ Morgan Guaranty Ltd worked with British Petroleum in its recent bond market financing and served as lead or co-lead manager for Eurobond issues in U.S. dollars, Japanese yen, and sterling.

☐ A leading U.K. public company consulted Morgan on financing a potential £250 million overseas acquisition. Within four days we made a confidential offer to underwrite the entire cost. Our fast response and thorough analysis enabled the client to make a timely bid.

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Importance placed on securities market reform

Bank of England

DAVID LASCELLES

Mr George Blunden (left) takes over at the end of this year as deputy governor of the Bank of England, succeeding Mr Christopher McMahon (right) who is leaving to become chairman of the Midland Bank after having been denied the governorship and coming under political attack over the Johnson Matthey Bankers affairs.

Their strongly contrasting personalities are expected to produce changes in the Bank's style. The intellectually agile and internationally renowned Mr McMahon gives way to a highly experienced Bank official who has worked in almost every department between joining the Bank in 1947 and his move to semi-retirement last year.

Mr Blunden, 62, appointed by 10 Downing Street, will have the task of boosting the Bank's supervisory function in the wake of the Johnson Matthey Bankers affair and preparing for the changes caused by the City Revolution. His special qualifications include a spell as head of the Supervision Division in 1974-76 when the Bank was organising a lifeboat to rescue the victims of the secondary banking crisis.

THE LAST 12 months have been little short of traumatic for the Bank of England. It was just over a year ago that the Johnson Matthey Bankers affair burst over its head. For most of the intervening period, the Old Lady has had to face an almost unceasing barrage of criticism not just for her shortcomings in allowing the crisis to happen in the first place, but for her alleged bungling of the clean-up afterwards.

The Bank's problems have just reached a climax with the resignation of Mr Christopher McMahon, the Deputy Governor, who has accepted an invitation to become chairman of the Midland Bank. He will be replaced by Mr George Blunden, a former Bank official who has been brought out of semi-retirement at the age of 62 to strengthen the Bank's supervision effort and, it is hoped, restore some of the prestige it has lost through the JMB affair.

Mr Blunden will also be chairman of a new committee that will pull together the Bank's rapidly proliferating responsibilities in the banking and securities markets.

Some of the criticism, at least, looks excessive. The Bank has never been short of enemies in either the City or Whitehall, and they have revelled in the opportunity to cast aspersions. Politically, too, it has suited the Government to place as much of the culpability as possible on the Bank.

But as the Bank itself has admitted, it is far from blameless. It has accepted responsibility for allowing JMB to slip through the supervisory net (though it claims it was wilfully misled by JMB management about the true state of the bank's affairs), and senior officials there admit that they were "politically naïve" in expecting that Whitehall would lend unquestioning support.

Mr Robin Leigh-Pemberton, the Governor of the Bank, has also just taken steps to reorganise the Bank's supervision effort in a shake-up which stresses the new importance of the reform of the UK securities markets (in which the banking industry is deeply involved) and appears to reduce the role of Mr Peter Cooke, the assistant director who was in charge of banking supervision when the JMB crisis broke.

Underlying the attitude of most people in the financial community towards the Bank is a mixed feeling of regret and concern about the whole affair. Regret that a venerable institution which, on the whole, is highly respected for its competence and the calibre of its staff should have suffered this indignity. If only out of self-interest, the City wants to see the Bank's strength and prestige restored because that reinforces confidence in the financial community in general.

But there is concern too that JMB may have shown up weaknesses in this City bastion at a rather crucial moment.

There is no question that the Bank's status has suffered because of the crisis, and with it the moral authority with which it regulates much of what goes on in the UK's vitally important financial markets.

The Bank not only supervises the banking system. In recent years it has assumed a broader guardianship over the City as a whole. It has taken responsibility for the troubled Lloyds insurance exchange, and in the last couple of years, has been one of the masterminds behind the City Revolution. After "Big Bang" next year, the Bank will play a key role in regulating the gilt-edged market.

The question JMB raises is whether the largely informal methods through which the Bank conducts its supervision, and the moral suasion it uses to keep people in line, are adequate to preserve order in today's fast-changing and enormously complex financial world. Whether, indeed, moral suasion still works.

Although the Bank would like an affirmative answer to both questions, the reality is probably no. It obviously suits the Bank to have unwritten rules because this gives it wider discretion and adds to its mystique—as well as fostering the less onerous regulatory system which most banking practitioners prefer.

The alternative — a more inquisitorial system like that in other countries such as West Germany and the U.S.—has also been no guarantee against bank scandal.

However, it is not only a question of spotting another JMB in good time; that, with luck, will be achieved by the new powers to command information which the Bank is to receive following the review of the supervisory system.

The bigger challenge is to supervise the enormously complex new conglomerates that have been spawned by the City Revolution, in which the potential for conflict of interest—and therefore questionable practice—is large, and the exposure to risk will also be substantial and, often, hard to measure.

A further consideration is the much greater reluctance of the leading City institutions to rally to the Bank's support in a future crisis following its heavy-handed demand for indemnities to cover JMB's losses.

This reluctance may, of course, rapidly change into self-interested co-operation the moment another crisis strikes, but the Bank may not be able to count on it.

It is not clear at this stage what the alternative is, however. There have been calls for the removal of bank supervision from the Bank to a new specialised agency. But they have not drawn great support. (There is also a case for combining the role of bank supervisor and that of the monetary authority because of their strong overlapping interests).

In addition there has been a suggestion that a U.S.-style Securities and Exchange Commission be established. But that would cover only part of the Bank's regulatory fiefdom, and the idea does not have the present Government's favour.

Finally, there is the question of the governor himself. The appointment of the present incumbent, Mr Leigh-Pemberton, a lawyer and clearing bank chairman, in 1983 was strongly criticised at the time as a political move by the Conservative Government to place a sympathetic figure in the City.

Ironically, this did not prevent a rift opening up between the Bank and the Treasury over the JMB crisis. However, it has been argued that the Bank might have dealt with the crisis in a more confidence-inspiring fashion if it had been run by a "hands-on" governor with a stronger City background.

Mr Leigh-Pemberton has, however, tried to get to grips with the situation by calling in Mr Blunden, and beefing up the supervision department. Mr Blunden's appointment got a mixed reception. He is clearly a figure with stature and experience, but he does not have the breadth of Mr McMahon.

The Bank's inability to produce someone from within its own ranks to replace Mr McMahon was also viewed by some as an unfortunate reflection on the quality of its staff, and the political log-jam that must exist at high levels in Threadneedle Street.

But the new structure makes sense. The high level supervisory committee that Mr Blunden will run should strengthen the Bank's ability to supervise the multifaceted financial groupings that are being spawned by the City Revolution. By keeping in touch with other regulatory agencies like the Department of Trade and Industry, it should also prevent groupings escaping supervision by "falling through the cracks."

Along with the greater bureaucracy being built up in the Banking Supervision Department, all these changes will result in the Bank becoming a stodgier organisation. This is obviously regrettable. But there is a resigned acceptance in the City and the banking community that the City Revolution and the burgeoning growth of London as a financial centre may only have accelerated changes that were bound to happen anyway.

Profile: Johnson Matthey Bankers

By David Lascelles

A headache for the Old Lady

THE INITIALS JMB will be etched deep in UK banking history.

The small bullion bank which almost brought the City to a standstill and gave the Bank of England its biggest headache for years has yet to provide the final reckoning of its huge losses. But a year after its near collapse, the new directors appointed by the Bank (which now owns it) expect to lose £220m out of a loan book which totals only £400m, an achievement which must surely qualify it for some uncoveted record.

The bank came to grief in classic fashion. It was chaotically run; it lent too much money to too few people (most of them Pakistani businessmen engaged in risky trading ventures), and when things started to go wrong, it tried to save itself by lending even more.

Whether there was fraud in addition to incompetence is a matter which the police are now investigating. There was certainly enough misleading reporting to conceal JMB's shocking state from both the Bank of England and its auditors, Arthur Young, for several months.

However, both the Bank and the auditors have been criticised for not being sharp-eyed enough, and Arthur Young face a law suit for "substantial damages" (which they will contest vigorously).

Since the midnight rescue on October 1 1984, when the Bank of England bought JMB off its parent, the Johnson Matthey group for £1, a team of Bank officials and secondees for other UK banks have been working to clear up the mess.

They have called in receivers to several companies owned by doubtful JMB clients, demanded fresh collateral from others, sorted out the confused documentation particularly on JMB's export credit loans, some of which were not recorded at all.

The Bank of England has also invested £100m in the bank to enable it to stay in business, mainly in the bullion market where it is one of the five members of the gold ring. In addition, UK banks have agreed to provide up to £75m to cover whatever losses cannot be met from JMB's £180m of capital. (The Bank has agreed to provide a like amount.) So far they have been asked to stump up about £17m of that.

Today, JMB's loan book totals about £400m, of which £310m has been classified as bad or doubtful. The provisions amount to £220m. The final losses depend on how much JMB can recover from its problem borrowers, and whether Nigeria pays off its debts to the large number of JMB clients who did business there.

The hope is to get JMB back into a condition which will enable it to be sold off again. Initially some 40 institutions showed interest in buying it. Since the fraud investigation was announced in July, five have restated their interest.

The eventual purchaser can expect to get a thriving gold bullion business, a much reduced but hopefully clean loan book, and the possibility of a damages payment from Arthur Young (but also the legal fees associated with the case).

The proceeds from the sale will go first to pay off the Bank's investment and the banks' contribution to the loan losses. The rest will be profit for the Bank itself, though nothing could compensate the Old Lady for all she has been through.

HOW THE SAGA EVOLVED

- 1980-84. JMB, encouraged by its parent, Johnson Matthey plc, diversifies from bullion into the lending business. Its loan book grows more than tenfold in only four years to nearly £500m.
- June 1984. JMB reports a drop in profits, partly because problems on West African loans. Arthur Young gives clean bill of health.
- September 1984: problems escalate rapidly.
- October 1: JMB rescued and bought by the Bank of England for £1.
- November 7: UK banks agree to put up £75m to cover JMB's losses, provided Bank of England puts up like amount.
- December 17: Chancellor announces review of banking supervision.
- December 19: Bank of England confirms it has placed £100m in JMB.
- June 20 1985: Chancellor announces reforms to banking supervision. JMB says it will sue Arthur Young for "substantial damages."
- July 17: police asked to investigate JMB.

Mr Christopher Reeves, chairman and chief executive of Morgan Grenfell. The bank last month announced a holding company structure which clearly split up its banking, investment management and new securities activities. Such a reorganisation makes sense in terms of the impact it may have on the perceptions of customers who might be worried about the multiplication of conflicts of interest when merchant banks move directly into the stock market. But there is a risk that management styles, which in the past have depended on close contact between departments, may suffer.

Relying on diversification

Merchant Banks

BARRY RILEY

IT IS a long time since London's merchant banks were merchants; and before very long, many of them may cease to be banks in any significant meaning of the word.

The merchant banks have always been at the volatile, entrepreneurial end of the City of London's spectrum of activity. With merchant bankers the important thing is not so much what they are, but who they are.

Traditionally they were personally well-connected, with strong family dynasties running through the Barings, the Rothschilds and the Hambros. Today family links count for rather less, but the emphasis is very much on individual talent, with Britain's top graduates, especially from Oxbridge, beating a bath to their doors.

The lure is that a merchant banker can be a key executive at 30 and can be running the bank at 40, while a clearing banker or an insurance man is still grinding his way up the ladder in a remote division.

But however attractive this may seem for the ambitious youngster, there are important disadvantages, too. The reliance on individual flair rather than organisational structure means that a large merchant bank can eventually become unmanageable. And there are constant ups and downs, so that Warburg and Morgan Grenfell have recently been on the crest of a wave while Schroder and Hill Samuel, for instance, have been struggling to recover. Few would care to predict how the various houses will fare in the future.

Within this entrepreneurial framework, there have already been substantial shifts in activity during the past few decades. The banking activities have been squeezed into more and more specialist areas, while there has been substantial growth in corporate finance.

And there has been headlong expansion in investment management, where members of the accepting houses committee now run discretionary portfolios of around £60bn. These dwarf their banking deposits of some £24bn, emphasising how much they have become drawn towards the securities markets even before the massive structural changes associated with the City Revolution have taken effect.

Indeed some of the big merchant banks already earn more than half their profits from fund management and associated activities — although this cannot be gleaned from their published accounts which remain opaque to the extent that they still do not disclose true profits (though the need to present strong balance sheets has meant that hidden reserves have in most cases been pared down to fairly minor proportions).

> Within an entrepreneurial framework, there have already been substantial shifts in activity during the past few decades. Banking activities have increasingly become squeezed into more specialist areas.

With opportunities limited in pure banking, a number of merchant banks have explored the scope for diversification into other financial services.

Many are developing a presence in personal finance, through unit trust and life assurance subsidiaries, and through attempts to develop a viable business with high net worth individuals including bank branches (Hill Samuel) and financial management services (Schroder).

There have been rather more variable ventures in a range of professional and corporate services, from insurance broking and shipping to bullion dealing and commodities.

The synergy of such activities has not always been obvious— and now many of them are vulnerable as the merchant banks clear the decks and mobilise all the available capital to finance the exploitation of the tremendous new opportunity that has now opened up to take over a large slice of the London securities market.

Several are going full tilt at the stock market, setting up broadly based securities businesses on the lines of the successful Wall Street investment banks like Goldman Sachs and Salomon Brothers.

These include the Mercury Securities grouping which includes Warburg and various stock market firms such as Akroyd & Smithers and Rowe & Pitman. Kleinwort Benson will also be a major player, and the merchant banking arms of Barclays, National Westminster and Midland are all implementing ambitious plans.

Other merchant banks, however, are being a little more circumspect. They may be making a virtue out of necessity, in that they do not feel they can commit the required capital or shoulder the risk of a major securities market initiative. But it is also true that specialisation has been an honourable and successful tradition among the London merchant banks.

So Schroder, for instance, has decided against becoming an official market maker in gilt-edged stocks, and has embarked upon the lengthy process of building up its own teams of securities traders, salesmen and researchers rather than paying a large amount for the goodwill of the existing broking and jobbing firms.

Robert Fleming has incurred the wrath of the Stock Exchange by setting up its own jobbing business in selected UK equities, again in preference to buying an existing firm. Still other merchant banks, like N. M. Rothschild and Hambros, have taken trade investments in Stock Exchange firms but appear to be reluctant to enter into a full-blooded commitment.

The smaller merchant banks are forced to face up to the fact that if they seek to become major players in the new-style securities market, the competition will consist not just of the other merchant banks but also the UK clearing banks and a number of American commercial banks and investment banks.

Depth of management resources is bound to be a key factor in determining which contenders will be successful, and this is not an area where merchant banks have traditionally been strong.

The merchant banks are grappling with the implications for their corporate and management structures, and several have recently announced reorganisations.

Last month, for example, Morgan Grenfell announced a holding company structure which clearly split up the bank, the investment management side and the new securities business. National Westminster also unveiled a similar structure for its investment banking operations.

Such reorganisations make sense in terms of their impact on the perceptions of customers, who might be worried about the multiplication of conflicts of interest when merchant banks move directly into the stock market. But they may threaten the management styles of merchant banks, which have depended in the past on close contacts between departments.

Meanwhile, as the merchant banks expand into securities trading, the intriguing question is whether their pure banking operations will suffer. Banking has become highly competitive and good corporate business carries only very low margins. Banking also needs a heavy commitment of capital—a commodity which is going to be in very short supply for the merchant banks in the next few years.

London to play pivotal role

Euromarkets

PETER MONTAGNON

THIS year's move by Deutsche Bank of its dollar Eurobond business to London has underscored the central role played by the City in the international capital markets.

Deutsche Bank has always been a big league player in the rapidly growing Eurobond market but had apparently become frustrated by its out-of-the-way location in Frankfurt which is, by comparison with London, a backwater for international business.

Indeed, Euromarket bankers increasingly view London these days as the pivot of a market system that will eventually include two other "megacentres" —New York and Tokyo.

London might well have reached this position even without the much-vaunted City Revolution they say, simply because its infrastructure and ancillary services in fields such as law and accounting leave it streets ahead of other centres in a marketplace that increasingly thrives on complicated innovation and sophisticated trading techniques.

Besides, London has an innate advantage in its time zone, midway between the U.S. and the Far East. Its language also gives it the edge over potential rivals on the Continent, as does the fact that the dollar remains the largest single vehicle for international capital market transactions and dollar deals tend to be handled by houses based in London.

So far in 1985 the dollar bond market has been enjoying another record year. According to the U.S. bank Morgan Guaranty dollar Eurobonds issued between January and June this year amounted to $51.8bn, almost double the total of $27.9bn for the first half of 1984, and coming almost within striking distance of the $63.6bn total for 1984 as a whole.

Although the business in Eurocurrency bank credits — also centred mainly on London —has fallen back considerably with a first half total of $41.7bn against $71.5bn in the same period of 1984, business in the fledgling Euronote insurance market is booming.

The banking magazine Euromoney reckons that new Euronote issuance facilities arranged in the first half of 1985 amounted to $18.7bn, more than the $17.4bn total for the whole of 1984.

All these figures suggest that the Euromarket banking community should be a generally rather happy lot in 1985. In fact, despite its successes so far this year, the market is overshadowed by a number of worries which all basically boil down to the age-old problem of too many banks chasing too little business.

> The City's infrastructure and ancillary services, in fields such as law and accounting, leave it streets ahead of other centres in a marketplace that increasingly thrives on complicated innovation and sophisticated trading techniques.

Although there are no reliable figures available bankers believe that profits on new Eurobond business could be down in 1985, even though the generous terms on the recent $2.5bn UK floating rate note may have repaired some of the damage.

In the secondary market, trading has tended to be quiet this year, partly because end-investors have stayed on the sidelines through uncertainty over the exchange market and interest rate trend.

In the Euronote market returns have also had to be pared to the bone as banks struggle to maintain their market share. Annual fees of ⅛ per cent or less are now the norm for banks offering standby credit as a back-up to the sale of short-term Euronotes in the money market.

Top quality borrowers can sell these notes at rates well below the London interbank bid rate for Eurodollar deposits, normally taken as the benchmark rate for banks' cost of funds.

In other words banks are squeezed out of their traditional lending business by the new market. Worse still most of the business done in the new market simply represents a refinancing of existing bank loans on cheaper terms.

On top of this bankers are having to contend with a growing pressure for regulation of the markets. Such pressure is in large part a natural function of the degree to which the markets have become overcrowded.

So far it has taken two forms with the bond market caught up in regulatory arrangements for the new-style City, while the Euronote business is part of a major Bank of England review of off-balance sheet risk.

Bond dealers and new issue managers expect to join a new Self Regulatory Organisation (SRO) which will cover all firms engaged in international securities business including equities.

The Swiss-based Association of International Bond Dealers aims to take a hand in regulatory affairs by becoming designated as an overseas exchange. This will allow it to play a continuing role as an arbiter of international bond business.

As far as the Euronote business is concerned, banks should have a better indication of the Bank of England's intentions before the end of the year, when it is due to publish a consultative document. But the Bank has made no secret of its concern over the way in which banks have been taking on underwriting commitments which are not recorded in their balance sheets and not backed up with capital.

It believes that many of these commitments are taken on at terms which do not reflect the risks involved and some international bank managements are also no longer fully aware of the nature of the business their banks are undertaking.

As a temporary measure banks now have to treat these underwriting commitments as having half the value of a straightforward loan when calculating their capital needs, but the general tone of the Bank's comments suggest its consultative document may be quite severe.

The problem it faces is that other central banks are making slower progress with off-balance sheet regulation and the Bank cannot become so strict that business is simply driven elsewhere. That would be like killing the proverbial goose that lays the golden egg — even if there are now so many geese in the Euromarkets that the price of eggs (and gold) has fallen.

UK BANKING 6

Steady rise in retail funding costs

Building Societies

CLIVE WOLMAN

SOME OF the most important practical effects of the moves to promote competition between banks and building societies on an even playing field have become apparent over the past six months.

Competition has sprung up or intensified in every field: deposit-taking and wholesale funding, cash transmission and other customer branch services, and lending. But the full consequences of these changes will take at least another two years to unwind.

In the battle for retail deposits, the introduction of the Composite Rate of Tax (CRT) on the interest paid by banks has spurred them into reversing the 15-year decline of their market share by raising the rates on their deposit accounts to close to those of the building societies.

As a consequence, both banks and building societies have been suffering a steady rise in the costs of their retail funding as savers switch their money into higher interest-paying accounts.

The building societies overtook the banks as the main repository for savers' funds 10 years ago. But a watershed was reached last year when the building societies' share of personal sector savings rose above 50 per cent while the banks' fell below a third.

The banks had long complained that CRT on building societies gave them an unfair advantage by allowing them to pay a higher after-tax rate of interest. But this was partially offset by the tendency of customers to compare the banks' gross rate with the building societies' net rate as the main quoted rates of the two institutions.

The imposition of CRT on the banks in the 1984 Budget, coupled with growing worries about the riskiness and stability of their funding from other (particularly international) sources, prompted the banks to market higher interest paying accounts with rates only slightly below those of the building societies in the run-up to the change taking effect in April of this year.

Many societies responded by pushing up their rates even further so that by April the margin of their average retail cost of funding over the wholesale and money market rates reached a record high. Even the largest societies, the Halifax, Abbey National and Woolwich, were offering until August rates of interest on three month notice accounts of almost 16 per cent on a fully-compounded grossed-up (no tax) basis, although the banks' base rates had fallen to as low as 11.6 per cent.

Even now, after last month's cuts in building society rates, the margin enjoyed by depositors in the highest rate accounts is still almost 2.5 percentage points over base rates. Thanks to competition with the banks and the break-up of the societies' interest rate cartel, a recurrence of the 1974-76 and 1979-80 situations when savers were offered rates well below the wholesale rates (and the inflation rate) is unlikely.

Increased awareness of interest rates by depositors is both a cause and effect of the greater competition. Like the banks, the building societies have been suffering from an "internal migration" of funds to their higher interest and term accounts.

The proportion of building society depositors' money in the lowest paying ordinary accounts has fallen sharply from 78.3 per cent in 1980 to 32.3 per cent four years later. Money in the high interest accounts has risen over the same period from £750m (1.5 per cent of total) to £40.9bn (44.7 per cent).

> Like the banks, the societies have been suffering from an "internal migration" of funds to higher interest and term accounts. At the same time they have been forced to abandon or reduce withdrawal and notice conditions

At the same time, the societies have been forced to abandon or reduce their withdrawal and notice conditions. For example, the proportion of money tied up for at least two years fell from 15.1 per cent in 1982 to 5.4 per cent in 1984.

As the 1985 Fact Book of the Building Societies Association, published last month, indicates the more competitive rates of interest have been the main reason for the fall in the total surplus (profit) of building societies from £888m in 1983 to £826m in 1984.

The societies have also been feeling greater competitive pressure from the banks in their supplementary services for depositors. Over the past year, all the clearing banks have followed Barclays' lead and started opening branches on Saturdays, whilst the building societies, although opening on Saturdays, have been forced to cut back on the number of new branches they are opening.

At the same time, the superiority of the banks' cash dispensing and transmission services is being challenged by the establishment of automated teller machine (ATM) networks such as Link.

The 17 Link members have agreed to install nearly 700 compatible ATMs by the end of next year to service over 4m cardholders. The first ones are now being installed. Abbey National (with 230 ATMs planned) is the leading member of the consortium followed by the National Girobank, Nationwide Building Society and the Co-operative Bank.

The other building societies due to instal Link ATMs are the Coventry, Gateway, Town & Country, Yorkshire, Chelsea, Derbyshire and Portman societies which are all in the top 30 largest societies, as well as the Sussex County, Dunfermline, Eastbourne and Peterborough societies.

The other, more indirect challenge from the building societies has come from their increasing use of funding from the money markets. The funds raised from the wholesale markets have risen from £230m in 1982 to £2.23bn last year.

Although activity declined in the early part of this year, over the last six months the benefits of wholesale funding have been highlighted as the cost of funds from building society depositors in relation to wholesale funding costs has soared.

On syndicated loans from the short and medium term Eurosterling markets, the societies have been able to reduce their funding costs to between only 12 and 20 basis points over the London inter-bank offered rate. Although such funding is most attractive to the largest five societies, each with over £5bn of assets, the market has been tapped by many middle-ranking societies. Midshires, 18th in size with £800m of assets, has been the smallest.

The possibilities have been extended this month with the opening of the Eurobond market to the societies. The Halifax is the first to tap the market with a £150m floating rate note issue on the finest terms. Following the Green Paper proposal, the Building Societies Bill due for the next parliamentary session should allow the societies to raise up to 20 per cent of their funds from wholesale sources.

But perhaps the most interesting developments are likely to come on the asset side of the building society's balance sheets.

The effect of the cartel was to hold mortgage interest rates down below the market clearing rates, which was particularly important at times of high inflation and high nominal interest rates. In 1980, for example, the mortgage rate was 2 percentage points below the banks' base rates.

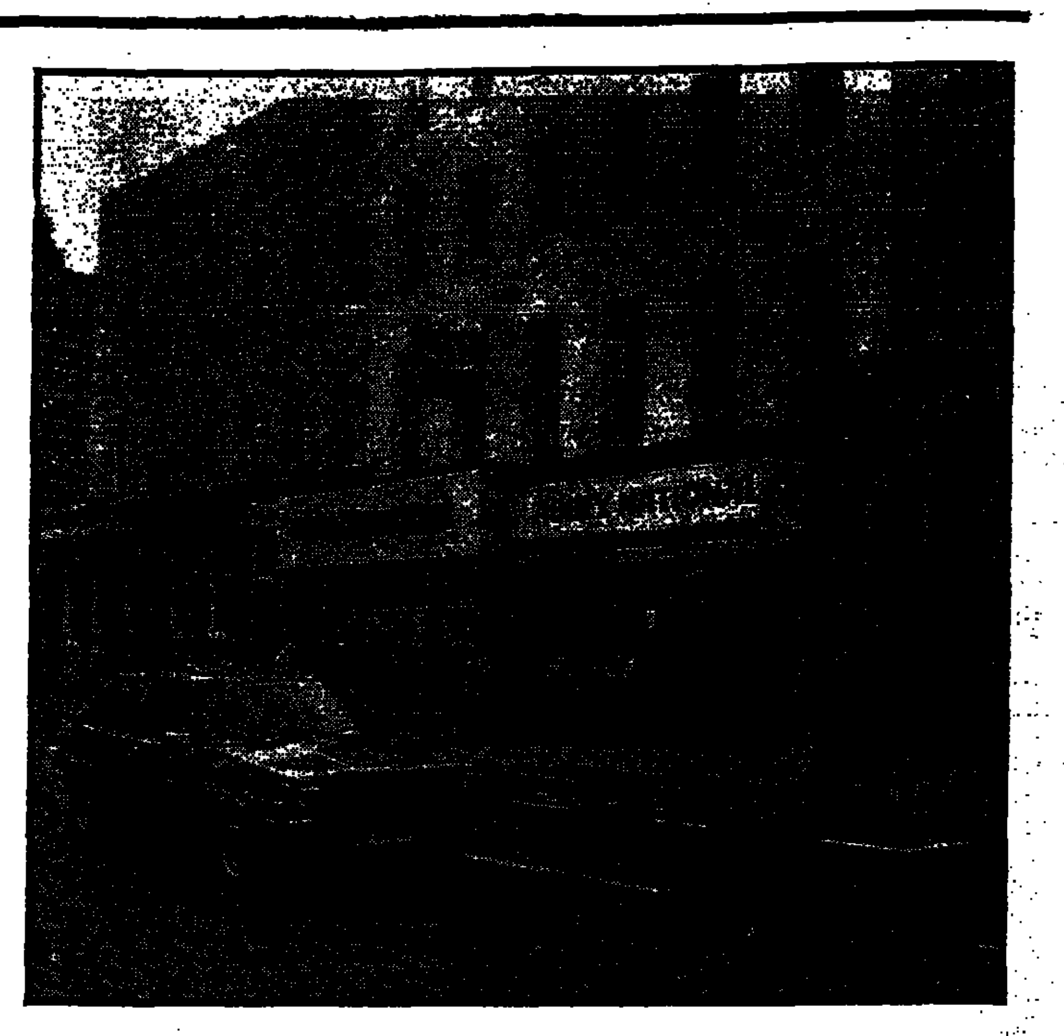
This affected profoundly the societies' marketing philosophy. All their efforts had to be directed towards the raising of funds by devising new types of savings media with differing minimum deposits, thresholds and notice periods. But little imagination was applied to the design and organisation of services for the convenience of mortgage customers.

There have been three important boosts to mortgage competition over the last two years. The interest rate cartel has broken up and its vestiges in the form of official Building Societies' Association advice on rates are also disappearing. The attractions of investment in government securities, where funds not lent as mortgages are usually kept, have been reduced by changes in the tax regime introduced last year. This has spurred the societies into increasing the proportion of their assets held as mortgages.

Finally, over the past year the clearing banks have returned to the mortgage market with more ambitious lending targets — and they have been joined by foreign and merchant banks.

One effect of these changes has been to force many societies to advertise their mortgages for the first time in order to generate sufficient demand for their funds. Mortgage queues have disappeared, possibly for ever.

But these changes in the market place have done little so far to promote the marketing of new mortgage products such as are available to U.S. home purchasers, such as fixed-rate, pension-linked, index-linked, Libor-linked or low-start. But product innovation in lending should speed up, particularly once the societies are granted the freedom to offer personal, unsecured loans in the forthcoming parliamentary Bill.



Close competition. The societies have been feeling greater competitive pressure from the banks in their supplementary services for depositors

Venture Capital

Enthusiasm fostered by political climate

BY TERRY GARRETT

Mr John Foulds head of 3i, the former Investors in Industry

AS VENTURE capitalists, Europeans are told that they are well behind their U.S. cousins. That paints a slightly unfair picture of those who dwell on the eastern side of the Atlantic for, quite obviously, venture capital, which might be better termed risk capital, has been part of business life since the year dot. What is a fairer criticism is that Americans structured the venture capital market years before Europeans warmed to the idea.

Inevitably the concept did not travel across the ocean totally unchanged. Tax regimes, financial markets and, indeed, attitudes to entrepreneurial endeavours vary from country to country but the venture capital industry is now flourishing in Europe and nowhere better than in the UK, even if it is a decade or two later than in the U.S.

There are more than 100 organisations within the UK offering venture capital investment, a large proportion of them having come on the scene during the last five to six years. Institutions and financial advisers have been falling over themselves to climb aboard this rapidly growing sector—and the banks, clearers and merchant, are up there with the best of them.

The surge of enthusiasm can be attributed to several factors. British banks and institutions have watched some incredible success stories in the U.S. and, more importantly, the political climate in the UK has favoured the rejuvination of small businesses.

The Government's Business Expansion Scheme for all its faults has done an excellent job of promoting awareness (and the tax advantages) of investing in small companies.

The grandad of the industry has to be ICFC, (previously The Industrial and Commercial Finance Corporation) which is part of 3i (Investors in Industry as it was). The institution was established with the banks and the authorities through the Bank of England to fill a funding gap. But the whole sector is mushrooming and whereas 3i might have accounted for over 50 per cent of the venture capital market a few years ago its position is probably around 20 to 25 per cent today. The banks themselves have done much to erode the position of their offspring.

Exactly how far each bank has travelled along the route of venture capital varies considerably, not least because the term itself is a loose one interpreted differently by the various players in the market.

It would seem fairly obvious that venture capital must mean the investment of resources in a young, potentially fast growing, business starved of funds. But how that investment breaks down between loans and pure risk equity, or at what stage venture capital becomes development capital, when a company has reached a more mature status, is something that the practitioners will argue at length.

In one form or another the clearers have been involved in venture capital since the late sixties. The stock market was performing well, equity investment was popular and backing young companies that had good chances of coming to the stock market seemed a sensible way of making money. The crash of 1974 changed perceptions of venture capital, as might be expected, and as a sector it lay dormant (relative to today at least), apart from the efforts of ICFC, Charterhouse and a few committed investors.

It was not until the late seventies that the clearing banks started to stir themselves again in more positive ways. At the Midland Bank, for example, Midland Bank Equity Group had been around since 1968 but it has grown rapidly in the last five years with around £50m outstanding at present in 150 investments.

Like other banks, the Midland made a positive decision towards the end of the seventies to promote and expand its venture capital activities. Unlike the 3i structures, Midland has skewed itself towards equity investment rather than loans in its portfolio. Only 7 per cent of the Midland money is represented by loan capital, whereas a typical investment by 3i might contain a far larger loan element.

Over at National Westminster the picture is slightly different in that much of its venture capital investment is deliberately passed across to County Bank, its merchant banking arm.

County has been accumulating a venture capital portfolio since 1969, and to date there are some 160 to 170 investments on the book of County Bank Development Capital (a new division set up a year ago to put a greater emphasis on the activity).

But County, like 3i, has an investment portfolio which is biased towards loans rather than risk equity. Of the £84m outstanding only £20m is in equity, with the rest represented by loans or convertibles. In fairness that stance is changing with new investments geared towards equity rather than safer loan investments.

National Westminster itself has just relaunched its Venture Capital Scheme for Small Companies which provides loans of between £25,000 and £200,000. The bank will take an option to purchase a minority shareholding in the company, usually less than 25 per cent, which can be exercised at any time during the agreed repayment period.

This, the bank says, will fill the gap which has emerged in the market below the level that most specialist venture capital groups are active.

Barclays Bank, like others in the field had carried out venture capital activities on an ad hoc basis throughout the 70s but in March 1979 it formalised its presence with Barclays Development Capital, which has since invested £29m in 57 companies, the bulk of that in the form of equity rather than loans.

Lloyds Bank has lived up to its rather cautious reputation. Lloyds Development Capital was not started until 1981. So far £8m has been invested in a spread of over 20 companies.

Outside of the big four clearing banks there is, of course, a host ofother venture capital specialists and all the merchant banks are active in the field to varying extents. Guides to sources of capital are produced by groups such as London-based Venture Economics or the large accounting firms such as Peat, Marwick Mitchell.

Shift to higher quality business

International Banking

DAVID LASCELLES

THE South African debt moratorium, Crocker National Bank, Latin America: British banks have had plenty of reason to feel cautious about expanding their international business. But none of them can afford to stand still or even retreat in today's world markets, and the formulation of a successful international strategy has become a delicate task.

As the graph shows, the clearers' earnings from their international operations have been erratic, to say the least, over the last 18 months, largely because, with the possible exception of National Westminster Bank, they have taken some knocks.

There has also been the cost of making provision against doubtful Third World debts, to which Lloyds and Midland are most heavily exposed. Barclays has also suffered losses in Hong Kong and the U.S., though these now appear to be past.

If asked point blank, few if any of the big clearing banks would say they expected their international earnings to grow as a proportion of the total in the next few years. Most would expect them to hold level or fall a bit.

But all the banks would say they were engaged in shifting business out of risky, unpredictable markets, particularly in the developing world, and going for higher quality business in North America, Europe and the Far East, even if this means more competition and lower margins.

The most striking example of this is the combined effort of Barclays and Standard Chartered to disengage themselves from South Africa, and concentrate their resources elsewhere. In the last six months, both banks have reduced their holdings in their South African subsidiaries to below 50 per cent, and turned them into associated companies. Barclays National Bank, South Africa's largest bank, will also change its name to erase the link.

As it turned out, both moves were extremely well-timed, though the debt moratorium announced by Pretoria on September 1 still caught the two banks with the largest exposure to the republic of any foreign banks. According to W. Greenwell, the UK stockbrokers, this amounted to some $750m in Barclays' case, equivalent to about 1 per cent of its assets, and £1.1bn in Standard Chartered's (4 per cent).

Presumably, they will try to reduce their exposure when they get the opportunity. However, evidence of Standard Chartered's determination to build up alternative business came with the acquisition in early September of a bank in Arizona for £250m, which will give this ex-colonial bank a bigger business in North America than South Africa, and add to its existing banking operations in California and New York.

The move was typical of the attractions which have lured all the large UK clearers into the U.S. commercial and retail banking markets in recent years, with mixed results to put it mildly.

With luck, Midland should now be past the worst in its disastrous acquisition of Crocker National Bank which lost £240m over the last two years. Midland now has full control of Crocker and is slowly steering it back into the black, while absorbing it into the Midland group. Crocker will become, essentially, a domestic U.S. bank with its overseas operations transferred to Midland's international division.

By the end of the century, possibly, Midland may be able to justify this extravagant venture in terms of a large and lucrative U.S. market share. But the deal will go down as one of the most colossal banking blunders in history, and a cautionary tale in how not to take on the Americans.

The other clearers' U.S. operations are improving. NatWest U.S.A., possibly the most successful U.S. venture by a British bank, increased profits by 69 per cent to $48m in the first half of this year, mainly by ploughing a steady but determined furrow in the New York retail and small company market.

Barclays and Lloyds also seem to be making headway with their extensive banking operations in New York and California.

Other markets being eyed by the clearers include the Pacific basin, where all but Midland are being admitted to the newly liberalised Australian market. They are also keen to expand in Japan, particularly on the securities side.

Business is growing in Europe, where the clearers have branches or subsidiaries in most countries. Earlier this year, NatWest broached the growing Spanish market by buying into Banca March—Spain's 19th largest bank—anticipating the growth in business that should come when Spain becomes a member of the EEC.

A new side to the banks' expansion is their growing involvement in the securities markets as a result of the City Revolution. All the clearers have spoken of their ambition to establish global securities operations, to match the growing preference for securities finance among their corporate clients, and to have a presence in the major capital markets.

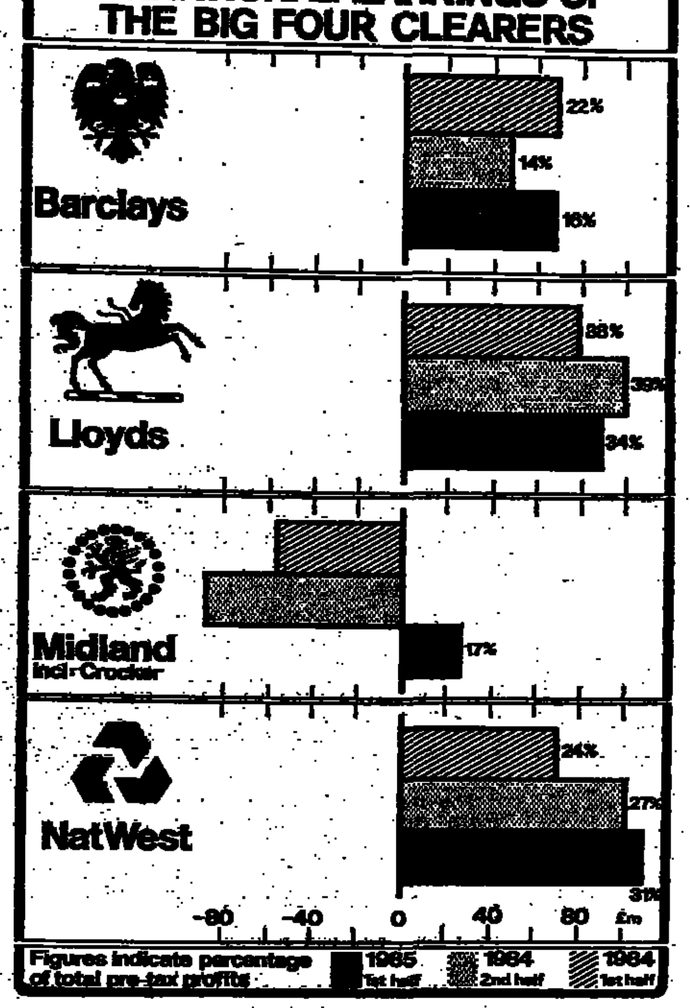
NatWest has just formed a new investment bank which it hopes will get securities licences in both Tokyo and New York. Barclays has similar goals for Barclays de Zoete Wedd, its newly formed securities group, though it is less advanced on the U.S. market than NatWest.

Lloyds will be expanding on the securities side through its new merchant banking subsidiary which combines many of the activities previously in Lloyds Bank International, its overseas arm which has now been merged into the parent bank.

At Midland, the expansion will come largely through Samuel Montagu, its merchant banking subsidiary which is to take over, among other things, the international capital markets activities of Crocker National Bank.

This is also one of the main areas of overseas expansion by British merchant banks, who are particularly attracted by overseas securities and corporate finance business. Their main focus has been the Far East and New York where they intend to accentuate the international expertise which has long been one of their hallmarks.

INTERNATIONAL EARNINGS OF THE BIG FOUR CLEARERS



Figures indicate percentage of total pre-tax profits

An increasing trend towards self-service

New Technology

ALAN CANE

BRITISH BANKS, in consort with their counterparts worldwide, are positioning themselves for a future in which both their business and the systems they use to deliver their services will be radically different from today.

In retail banking, for example, robot cashiers will gradually take over from their human counterparts. The first signs of this revolution are already apparent with the popularity of automatic teller machines (ATMs), the banks-in-the-wall which will deliver cash, satisfy a balance request, grant a loan or process a request for a statement or new cheque book.

Specialised ATMs have been popular in the U.S. and Japan for some years, but they are only now making an appearance in Europe.

These specialised machines are much more limited in function than full-feature ATMs; they may, in fact, perform only a single service like dispensing cash.

The trend, however, is towards providing a row of these specialised machines in the banking hall rather than through the wall, each set up for a specific service—cash dispensing, balance enquiry, cash transfer and so on.

Used in this way, ATMs can take over many of the repetitive jobs now carried out by human cashiers. There are, however, the usual kind of social problems generated in dealing with robots. The National Consumer Council called for safeguards for bank customers who lose money through cash dispenser errors earlier this year.

Three areas of concern were identified by the BBC Radio 4 consumer programme You and Yours: dispensation of fewer notes than requested, debiting of the same transaction twice and debits without apparent cause. The National Consumer Council publicised the case of an individual who lost £700 withdrawn from a cash dispenser by someone using his card illegally. The bank was not prepared to accept that he was not personally responsible.

Robots have their uses, however. ATM producer NCR in Dundee, Scotland, uses a Unimate Puma 500 robot to insert a plastic card in ATMs under test and take the money dispensed. It tests four ATMs at a time, 24 hours a day, seven days a week. Humans, it seems, could not stand the monotony.

Two other areas in retail banking are generating interest. Electronic funds transfer at the point of sale (eft/pos)—the key to cashless shopping—and home banking.

Eft/pos (the computing services company CAP has suggested a more attractive name would be personal payments systems) has a chequered history in the UK. Several years of abortive planning led at last to the firm decision in January this year that the clearing banks in agreement with the Retail Consortium (acting on behalf of the nation's shopkeepers) would go ahead with plans for a nation-wide cashless shopping venture.

Three pilot schemes were announced in the middle of the year. Midland Bank this autumn starts an experiment in Milton Keynes.

Barclaycard will run an experiment for companies belonging to the Access and Visa organisations in London and the South-East with the first terminals being installed at north London's Brent Cross shopping centre.

The third experiment, involving principally petrol stations is being run by National Westminster Bank. The machines will accept NatWest and Midland cash cards together with Access and Visa cards.

The aim of Eft/pos systems is to eliminate cash together with the paperwork involved in making a payment by cheque. The customer in a store using an Eft/pos system presents a plastic card, exactly similar to a credit or cash card, to the cashier.

The cashier "swipes" the card through the Eft/pos device which automatically telephones the card issuer's computer centre to check the card is valid, not on a hot list of stolen cards and that the purchase amount is within the card holder's credit limit.

Assuming all is in order, the signal is given for the sale to proceed and the card holder's account is debited and the store's account credited simultaneously and instantly.

Use of the branch processor to hold customer information is growing.

Many questions remain to be answered about the way the system should best operate; the bank's Eft/pos development team under Mr Dougald McCallum is already hard at work sorting out solutions. The accountants Deloitte Haskins and Sells is investigating the costs and benefits of cashless shopping to the parties involved.

But if the details remain to be settled, there is little doubt that Eft/pos will go ahead in the UK, and electronics manufacturers are jockeying for position as suppliers of the equipment which will be needed.

The basic network which will carry the transaction details has been left to British Telecom and IBM but contracts for the Eft/pos terminals remain open.

The widespread growth of home—and office—banking is much more tenuous.

Chiefly led by the big U.S. banks—Chemical, Chase Manhattan and Citibank, all have extensive home banking programmes—UK banks still have their reservations about market demand for the service and whether it can be provided cost-effectively.

Midland Bank has been running a trial, now ended, of a form of home banking by setting up terminals in a number of its branches.

Mr David Bayliss, the manager responsibility for electronic banking at Midland says the trial has been a success: "We learned a great deal, especially about the security aspects. We had the usual problems with "hackers" trying to break into our system but we learned what to look out for and how to make our systems difficult to crack."

But the levels of security needed in these public systems can be trying to the user. The pioneers of home banking in the UK, Nottingham Building Society and the Bank of Scotland developed a system running on Prestel which requires the keying in of 47 digits before a statement can be checked or a bill paid.

The banks' chief challenge over the next few days will be a complete overhaul of their computing and communications systems.

Most of the big banks are still using computer installations which were designed in the 1960s for predominantly batch processing—in other words, raw data was collected through the day, fed to the machine in batches, processed, and sent back the following day.

Now with the growth of ATM's cash dispensers and other forms of robot cashier—not to mention home banking—the banks' are trying to handle on-line, real time operations with machines which are patently not suited to the task.

On-line means there is a permanent telecommunications link between the terminal—ATM, cash dispenser or whatever—and the computer. Real time means that when customers ask for particular information, they get it there and then.

So the banks are looking to the next generation of very powerful mainframes and ever bigger disk drives holding much larger volumes of information on-line.

They are also building better, more flexible telecommunications networks. Saturday opening for banks like NatWest and Midland will only be possible through advanced telecommunications networks to handle substantial numbers of automated tellers.

There is a steady move towards the distribution of computing power through the banking industry, with the growth of the branch processor, a small but powerful minicomputer based in the branch. This handles not only branch accounting but also all the self-service devices for customers, ATMs and so on, as well as the electronic aids for the staff—counter terminals, back office accounting terminals, enquiry terminals.

There is growing use of the branch processor to hold customer information in a form which it can easily be called up by the branch manager.

The information can be used in various ways—as a guide to lending or to help pinpoint groups of customers for a specialised marketing effort.

U.S. banks are already using this kind of decision support system to help their marketing efforts, but it is new to the UK.

Overall, the trend to self-service banking both at the individual and corporate level in the UK is increasing albeit slowly. One banker likened it to the advent of self-service petrol stations: "At first, you would do anything to avoid them. Now you feel insulted if you cannot serve yourself."

More aggression shown by the Big Four

Retail Banking

CLIVE WOLMAN

THE 1980s have seen a reversal in the trend towards concentration in retail banking and the oligopoly of the four largest high street clearing banks. The Big Four have become increasingly aggressive in their competition with each other and have also been forced to take on the building societies and outsiders such as the Trustee Savings Bank in nearly all their retailing operations.

A snapshot now in the middle of the decade shows the different sectors of retail banking at different stages of development and subject to varying competitive pressures.

At one end of the spectrum are the consumer, unsecured lending operations of the banks, probably the retail banking activity which enjoys the highest profit margins. The four major clearing banks each have portfolios of personal loans (excluding overdrafts) of about £1bn.

Although all four report that their bad debt experience on such loans is tiny, they are able to charge interest rates of 22 to 24 per cent, about 10 percentage points higher than their rates on secured (mortgage) lending. Their profitability arises from their ability to cream off the most creditworthy customers and leave the rest to the finance houses, although Midland in particular has been unable to increase its personal loan portfolio as much as it has wished.

But profit margins are likely to be squeezed over the next three years by new entrants encouraged by the ease of access to sophisticated credit scoring techniques. From January 1987, the building societies will be permitted under forthcoming legislation to lend up to 5 per cent of their assets as unsecured loans. This would make over £5bn of building society assets available.

Because of the 5 per cent limit, their lack of experience in this field and their unwillingness to accept the risk of bad debts, the societies are also likely to go for the same credit customers as the banks—and to undercut them if necessary.

The building societies have been given an extra spur to look for more profitable lending outlets by the renewed vigour with which the banks have returned to the mortgage market this year. In the second quarter, the banks' mortgage lending doubled with the approval of £1.1bn in new loans.

All the banks now accept that their retreat or, in the case of Lloyds, withdrawal from the mortgage market in 1983-84 cost them dearly in terms of good will. Compared to the high risks of their international loan portfolios, UK home loans seem an attractive haven.

One particular appeal of mortgages is that their profitability does not fluctuate with the level of interest rates. According to Mr Fred Crawley, deputy chief executive of Lloyds Bank: "Mortgages produce a smoother earnings pattern and thus improve the quality of our earnings."

The banks have also been examining ways to expand their mortgage facilities without committing too high a proportion of their balance sheets to home loans. Too rapid growth in mortgage lending was the cause of their sudden retrenchment two years. But the launch last month of the National Home Loans Corporation has highlighted the possibility of removing all, or nearly all, the credit and interest rate risk of mortgages from a balance sheet by packaging them together and selling them off as securities. In particular, Lloyds is considering the securitisation of £100m to £200m of mortgage assets.

The removal of the solicitors' monopoly over conveyancing next year will also allow the banks to set up a one-stop house sale and purchase service which will deal with everything from estate agency and financing to moving the furniture and re-connecting the electricity. Lloyds, with its Black Horse estate agencies, is probably the best placed to attack this market.

In the first three months of this year, with base rates pushed up well above mortgage interest rates, the banks reported losses on their mortgage books. However since March, that relationship has been reversed and the banks were able to charge their mortgage customers an average of nearly two percentage points above base rates. They have also forced the building societies to bring down their rates to borrowers.

This in turn forced the societies last month to cut their rates to depositors thus removing their edge over the banks' high interest accounts. The introduction of these accounts, prompted by the introduction of the Composite Rate of Tax (CRT) on bank interest, has reversed the 15-year long decline in the banks' share of personal savings at the expense of the building societies. The Midland, for example, reports a 50 per cent increase in personal sector deposits over the 17 months to August.

The banks now accept that their retreat from the mortgage market cost them dearly in terms of goodwill.

The high interest accounts have generally offered slightly lower rates than the best building society accounts, although Barclays for example has sometimes been willing to pay out more on its high interest account than it does in the interbank market. But the ease of access to the banks' accounts, through cheques and cash cards, has more than compensated for the interest rate differential.

But the most controversial innovation over the last year has been Midland's abolition last December of bank charges for customers who remain in the black. The move, based on research which suggested that bank charges were the most serious grievance of customers, has proved more successful than anticipated attracting over 200,000 new accounts. Barclays admits to having lost 40,000 accounts to Midland as a result of the move. National Westminster lost 27,000 in the six months to June and Lloyds has lost about 25,000. As each of the banks has 4 to 5 million personal accounts, these shifts do not yet amount to an upheaval. And, according to Barclays, most of those who have moved accounts are the least profitable customers, mainly from socio-economic groups C2 and D with above average transactions and below average balances.

Midland says that the average balance of its new customers attracted by free banking is £300. But it is sharing some of the concern and has introduced credit scoring for applicants wishing to open new accounts. None of the other banks has yet been tempted to follow suit, although Lloyds is seriously considering it.

In the meantime, however, Lloyds has turned its attention to the top end of the market by becoming the first clearing bank to offer a comprehensive "financial supermarket." Following the package first marketed two years ago by Allied Hambro, the service offers automatic sweeping of funds between current and savings accounts, automatic overdraft facilities of £10,000 and a portfolio administration and asset management service. So far however it has attracted only 800 customers. NatWest is preparing to launch a similar package next year.

One innovation which has been followed over the last 18 months has been the Saturday opening of branches, although there were two years of hesitation before NatWest decided to follow Barclays' lead last summer. NatWest plans to have 200 branches open by the end of the year although it is not offering chequeing facilities as Barclays does.

Lloyds also has 180 branches open on Saturday afternoons. The opposition of the bank unions has been overcome by employing staff on special contracts. But none except the Trustee Savings Bank seems likely to take advantage of the new Sunday trading laws, at least in the near future.

NatWest and Lloyds have sought to create a different atmosphere in their branches on Saturdays by moving staff in front of the counters and bringing out videos and other visual aids. "The branch counter is a barrier to communication," says Mr Philip Girle, general manager of domestic banking at NatWest. In fact, several bankers believe that this type of development will spread.

The "paper-processing factories" set up in the high street will disappear and nearly all the space and the staff in high street bank branches will be devoted to servicing, and selling to, customers. Midland has set up nearly 20 new-style pilot branches and NatWest, which has the most costly and unwieldy branch network with 3,200 UK branches, has also been developing a mock-up of a radically different branch.

Lloyds has also been trying out new-look branches. But most of its investment has recently gone into the opening of 200 "lobbies" outside branches which customers can enter to use one of a battery of Automated Teller Machines.

Perhaps the greatest force for innovation in branch lay-out and in the closely connected use of new technology will be the Trustee Savings Bank. The TSB has already been at the forefront in using on-line computers to check customers' accounts. And from next February, after its stock market flotation, it will be flush with probably an extra £1bn of cash to invest.

Closer watch on fresh areas of risk

Mr Eddie George (above) will be responsible for the gilt edged markets, while Mr David Walker (below) is taking a central role in organising the securities side of the City Revolution

Supervision

DAVID LASCELLES

THE QUESTION of how to improve the UK's methods of prudential supervision has become one of the key issues in UK banking. This is not merely because the Johnson Matthey Bankers crisis has shown up failings in the Bank of England's time-honoured methods, which rely heavily on informal contact and a willingness by bankers to cooperate with the bank.

Supervision today has assumed a much broader importance than just checking banks' books. The City Revolution, which has drawn banks into new areas of risk like the securities markets, raises wholly new questions about the assessment and control of risk. The global trend in banking towards innovation has also set alarm bells ringing and produced calls for greater prudence.

The UK central bank's view of this fast-changing world was summed up in a recent wide-ranging speech by Mr Christopher McMahon, the outgoing deputy governor. "The new risks which are increasingly evident, as what were once simply innovations cease to be novelties and become the staples of the new industry, must be carefully controlled, monitored and accurately assessed."

The Bank, which is ultimately responsible for ensuring the soundness of the UK banking system, is trying to tackle these concerns in several ways, though the Treasury, which is also involved, is keen to avoid a "knee jerk" reaction to JMB.

A fortnight ago, Mr Robin Leigh-Pemberton, the governor of the Bank of England, announced a major shake-up in the upper echelons of the Bank specifically to strengthen its supervisory function. The announcement coincided with the appointment of Mr George Blunden, a former Bank official who had worked in almost every department including supervision in the course of a 34-year career, to succeed Mr McMahon.

The key change is the creation of a new high level committee chaired by the Deputy Governor to set supervisory policy, and also pull together the many supervisory duties which the Bank now has. The members of the committee are:

● Mr Rodney Galpin, who has been given overall responsibility for supervision of banks.

● Mr Peter Cooke who will co-ordinate the Bank's supervisory effort on the international level with other central banks.

● Mr Eddie George, who runs the home finance division and will be responsible for the gilt-edged markets in which many banks will be market-makers.

● Mr David Walker, who is playing a key part in organising the securities side of the City Revolution and is chairman of Johnson Matthey Bankers.

The new committee's job will not merely be to prevent a new JMB crisis. Its main task will be to address the difficult question of how to supervise the multi-faceted groupings (all dominated by banks but consisting of stockbrokers and jobbers too), which are emerging from the City Revolution.

The committee will ensure that all the strands of the Bank's supervision activities do meet up at the top. By keeping in close contact with other regulatory agencies like the Stock Exchange and the Department of Trade and Industry, it will also try to prevent any of the groupings slipping through the supervisory net.

The Bank's legitimate worry is that the banks' fast-growing non-banking activities, particularly as dealers in the financial markets, must be supervised too because of the risk that they could suffer losses and damage the parent.

The Bank has already said that it wants dealing subsidiaries to be insulated from their parents and separately capitalised. But the parents will also be expected to give them full support.

A further task for the committee will be to formulate changes to UK banking law and regulation to beef up the supervisory effort.

The Bank has already circulated several proposals for comment, and wants to get a White Paper ready by the end of this year so that a new law can be enacted next year. By and large these have been well-received by bankers and professions like the accountants, though there will be some horse-trading over details in the meetings scheduled for the weeks ahead.

The main proposals are:

● Ending the distinction between recognised banks and licensed deposit-takers. Although banks are not happy that deposit-takers should be allowed to call themselves banks, this proposal is likely to go ahead and will result in all banks being subjected to the same amount of scrutiny.

● The Bank to have more powers to obtain information from banks.

● Enhanced deposit protection scheme.

● Tougher limits on loan concentration. All exposures to the same or related borrowers over 10 per cent of capital to be reported to the Bank, and an absolute limit set at 25 per cent. (Previously 10 per cent was just a guideline.) These are tougher limits than exist in many other countries. But banks seem ready to accept them, if only because not to would imply that they had breeched them. The issues here are what exactly constitutes "exposure" in the new-fangled world, and how specialist banks specifically set up to lend to particular businesses or countries should be treated.

● Greater role for bank auditors in the supervision process, including the possibility of dialogue between the Bank and a bank's auditors. By far the most controversial proposal. Bankers fear that the Bank will talk to their auditors without their knowledge; some accountancy firms have expressed unease about this too. But the Bank is determined not to yield on this point since it wants to be able to consult a bank's auditors when it has lost confidence in its management, though it insists it would only use this power in highly exceptional cases. Generally, it would be a trialogue between the Bank, a bank and its auditors. Many other countries permit and encourage these contacts.

The Bank of England has also been getting to grips with the growing problem of off-balance sheet risk: the assumption by banks of contingent liabilities such as guarantees, underwriting commitments and letters of credit which earn fees but do not come on to the balance sheet until called, or something goes wrong.

Although few figures for UK bank exposure have emerged, U.S. banks are known to have off balance sheet commitments which are double the size of their actual balance sheets, and represent a massive potential call on their capital.

Last spring, the Bank reminded UK banks that they must give such contingent liabilities a 0.5 weighting (allocate half the amount of capital needed for a full loan). But it also embarked on a lengthy investigation into the whole problem which is likely to result in more detailed regulation in the next few months.

To reinforce the message, Mr Leigh-Pemberton has just sent a letter to the banks reminding them to keep off balance sheet business under control. It was part of an internationally co-ordinated effort by supervisors to tackle the matter.

However, there are limits to how far the UK can go until other countries, notably the U.S., have taken similar steps, because it may only end up putting UK banks at a competitive disadvantage, and drive this internationally mobile business to more lightly regulated centres.

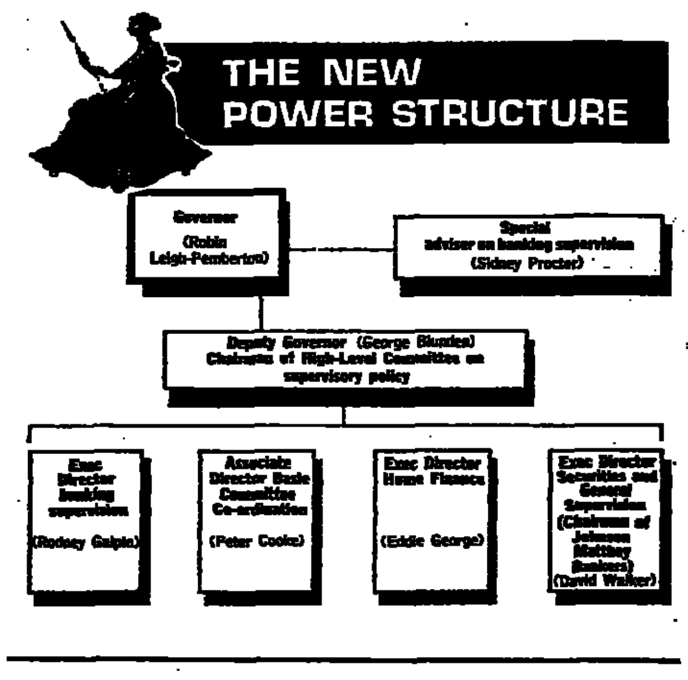
Slow and methodical it may be, but the Bank is going through what must amount to its biggest review of supervision ever. To cope with the extra work, the supervision department is being increased in size from around 100 to 120 next year.

The result is bound to be a more cumbersome process of supervision, with more bureaucrats, forms and regulations, and a noticeable shift away from the light touch the Bank preferred to use before, with both good and bad results.

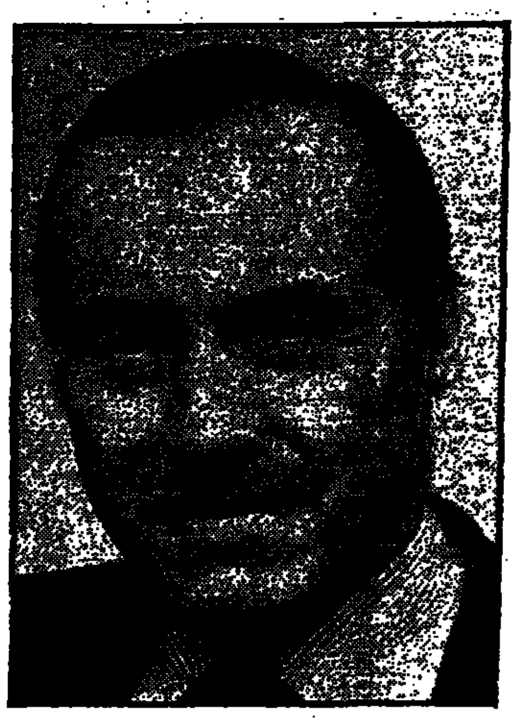
One of the Bank's concerns in shaping its new policies, however, is to maintain and enhance London's standing as an international centre. Historically, part of its appeal has been the sophistication of its supervisory system, which contrasts favourably with the heavy-handed approach of many other countries.

But London's standing also depends on the confidence it inspires in the international financial community. The growing size and complexity of banking is forcing the Bank to fatten and enforce its rule book, even if this goes against its nature.

Again, Mr McMahon touched on this in his speech. Supervisors should be guided by two concerns, he said. "First of all those active in the industry are in fact subject to supervision but not overburdened by an excess of it; second, that the standards applied by different supervisors do not introduce unreasonable barriers to competition, or confer on particular types of institution an unfair competitive advantage. As banks often remind us, there need to be level playing fields."



Mr Peter Cooke (above) is to co-ordinate efforts on an international level, and Mr Rodney Galpin (below) has overall responsibility for banks



Ombudsman should boost customer confidence

IT WAS a unique employment opportunity for anyone who saw the ads — and more than 200 people did. Wanted, qualified applicants for the post of Banking Ombudsman.

Following the encouraging example of the insurance industry, British banks are in the process of setting up an Ombudsman of their own to investigate complaints from the public. Although he will be completely independent, the banks hope this initiative will polish up their public image, which gets easily tarnished over such sensitive matters as people's private financial affairs.

The Ombudsman is to be appointed by a council consisting of a chairman, three banking members and three independent members, to whom he will also be responsible. The chairman is Dame Mary Donaldson, the energetic former Lord Mayor of London, who said her job was to see that "the scales of justice are not weighted one way or another."

When the members are chosen, the Council's first job will be to sift through a short list of candidates, and make a choice in time to enable him or her to start work next January. For obvious reasons he cannot be a banker. Most likely, the banks believe, he will be a lawyer, preferably endowed with a good deal of energy and patience.

The Ombudsman's job will be to resolve disputes between customers and their banks, but only after all existing procedures for dealing with complaints have been exhausted. The official will have the power to make awards up to £50,000, though if a customer decides not to accept the decision he or she can still pursue the matter in the courts.

Any disputes arising from personal banking services will be covered—except the commercial reasons behind bank lending decisions, so no one can complain that they did not get a loan if they were a poor credit risk.

The important point about the Ombudsman is that he should boost confidence in the banks at a time when they are fighting an increasingly competitive battle against newcomers in their traditional markets, and being forced to alter their services or practices in ways which could upset long-standing relationships with their customers.

David Lascelles

Big Bang will squeeze profits

Fund Management

CLIVE WOLMAN

THE merchant banks are estimated to have quadrupled their profits from investment management over the past six years as the funds under their management grew at a compound rate of between 25 and 30 per cent per year.

But next year's introduction of negotiated stock market commissions and the mergers of banks, stockbrokers and jobbers will upset the traditional methods of conducting an investment management service and is likely to mean a squeeze on profitability.

One immediate effect will be the removal of a major source of revenue for the managers of pension fund money, their share of the stockbroking commissions paid by their clients.

Fund managers at present are able to lump together all their deals in the same stock over a three month period and reap the benefit for themselves of the lower commission rate for large deals.

On some estimates, this practice, called continuation, generates as much, if not more, revenue than the explicit management fees charged to pension funds, which averages about 0.1 per cent of assets under management per year. Further revenue is generated by commission-sharing on dealing in overseas stocks.

An [illegible] among pension [illegible] and consultants of the benefits of continuation has already led some investment managers, for example, Barclays, to pass on the benefits to clients and charge higher explicit fees.

This is likely to become standard practice from next autumn when at least the largest clients are likely to dictate at what commission rate they expect to deal. Some form of commission-sharing, however, may continue to be imposed on the smaller clients, particularly local authority pension funds which dislike paying explicit fees.

But it may often be difficult for fund managers to raise their explicit fees sufficiently to compensate. Competition between fund managers is intensifying for several reasons.

Firstly pension fund asset growth, which has been dramatic over the past 20 years, is expected to slow by the end of the decade as many pension funds reach maturity, although the proposed abolition of the State Earnings Related Pension Scheme may postpone this development for another five years.

Secondly, a growing number [illegible] companies have recently been challenging the dominance of the merchant banks in pension fund management. They also provide fierce competition in unit trust management, where profit margins are generally higher. And the corollary to the U.S. pension fund business won by UK merchant banks, particularly Morgan Grenfell, over the past four years is likely to be increasing competition in the UK market from U.S. investment houses.

In both the UK and U.S. markets, there has been growing scepticism about the performance claims of fund managers. This has led to a resurgence in the past year of passively managed and low charging stock market index-tracking funds in the U.S.—and their emergence in the UK.

> An increasing awareness among trustees and consultants of the benefits of continuation has led some investment managers to pass on benefits to clients and charge higher explicit fees.

County Bank and Barclays have led the way in London. But these pressures have not yet forced the merchant banks to disclose their performance figures. Although trustees have been increasingly willing to sack one fund manager and move to another, the decisions are still made on the basis of their own direct experience and that of their consultants.

If clients are changing management houses more frequently, so are the individual fund managers. This has boosted the pay of top fund managers substantially, sometimes to salaries as high as £75,000. The rise in remuneration levels is also the result of the corporate realignments in the City.

Fund managers' salaries have traditionally been held down by comparability requirements with other salaries in the same merchant or clearing bank. This has generated resentment in some investment houses, for example Montagu Investment Management (MIM), and led to staff losses particularly from the clearing banks.

But the banks are now giving their investment management operations more independence in their recruitment and salary policies. The incorporation of market makers, underwriters, brokers and investment managers in the same companies has aroused concern about conflicts of interest and fears that the interests of investment management clients will suffer.

This in turn has led to the sale or spinning off of some investment management operations (MIM from Montagu, Framlington) and already forced others such as Schroder to move to separate locations as a sign of their independence.

The investment management operations of the two largest conglomerates in the new City, BZW and Mercury Securities, will suffer disruption next year not only from their merger of the separate fund management operations of bank and stockbroker but also from their moves to separate locations and their need to demonstrate and ensure autonomy.

Despite such pressures, most bankers feel that keeping a fund management operation as part of a larger group has advantages in encouraging cross-selling, brand recognition and, in a circumscribed form, the generation and discussion of new ideas and investment prospects.

Debate centres on beefing up subsidies

Export Finance

CHRISTIAN TYLER

THE export finance scene has been dominated this year by an essentially political row between government and industry, in which the banks themselves have played only a minor part.

Not even the continuing financial travails of the Export Credits Guarantee Department, whose figures have improved recently but whose internal affairs are still under scrutiny, have aroused such interest.

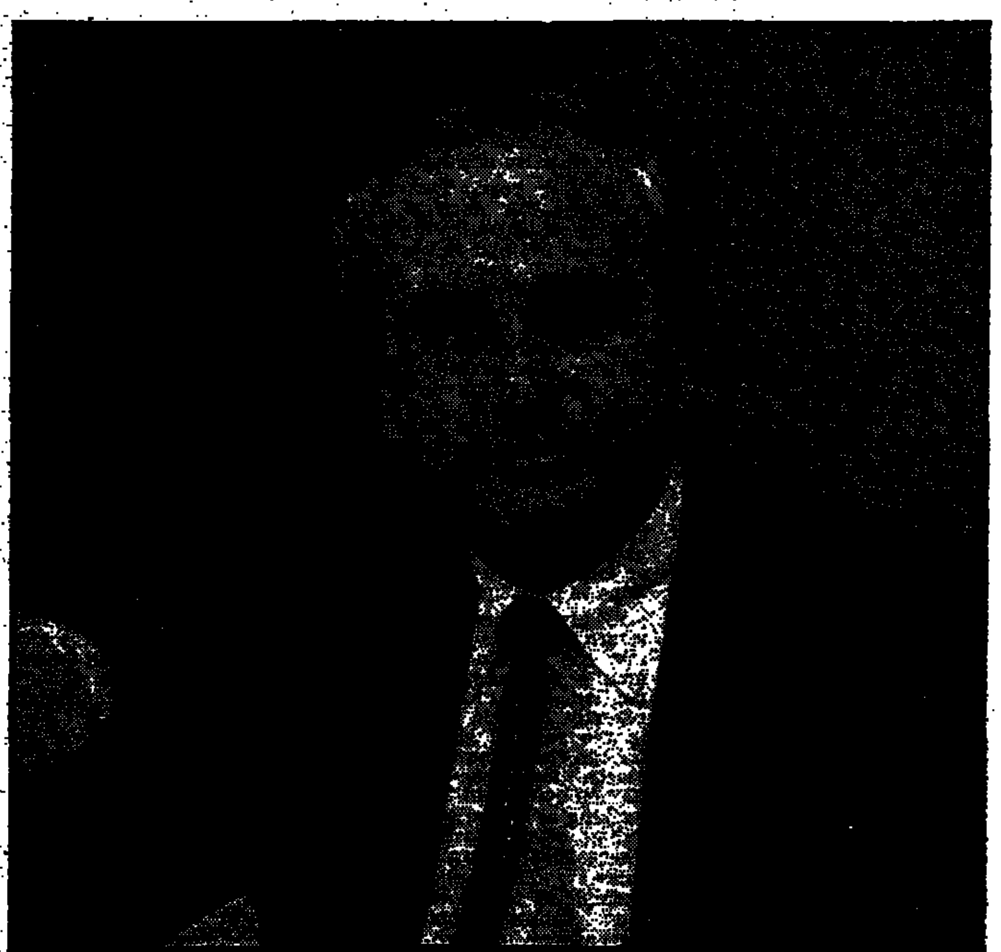
Nevertheless the future of the ECGD's lossmaking services — notably of the comprehensive bank guarantee schemes—does matter to many smaller exporters and their financial advisers. The signs are for the present that industry is winning its case for keeping ECGD services relatively intact.

Industry, or more precisely the top dozen or so contracting and consultancy firms who depend on project work in difficult markets, has had some success too in forcing the Government's hand on the issue of subsidised finance.

It is unlikely that the Prime Minister needed much persuading to beef up the competitive stance of Great Britain Limited. Her own foreign tours this year to South East Asia and more recently to the Middle East have had a strong commercial flavour.

But Britain does not have, like Jordan, a state mechanism for the aggressive pursuit of foreign business, and neither Whitehall nor the Government is particularly keen to use public funds to "buy" business from less scrupulous competitors such as the Japanese, the French or the Italians.

This year the argument has focussed on Britain's alleged failure to compete in a mixed-credit race that is undoubtedly still gathering speed as more companies fight for smaller numbers of prestigious contracts.



Lord Young. It became obvious during his trade mission to China in March that the Chinese were not going to order much work unless they could get soft credit

The lines of the debate were laid down many months ago with the belated publication of a Government economists' report challenging the wisdom of matching export finance subsidies offered by competitors.

Ministers, including naturally the Treasury team, have more or less consistently argued that they will do everything to reduce credit subsidies by international agreement, but will not in the meantime expose the UK to the predatory practices of others.

Two events this year have, however, modified that stance. The first was Lord Young's trade mission to China, in March when it became blindingly obvious that the Chinese were not going to order much work unless they could get soft credit.

The second event was the failure of an Anglo-American engineering consortium to win an important contract to build roads and a second suspension bridge over the Bosporus in Istanbul.

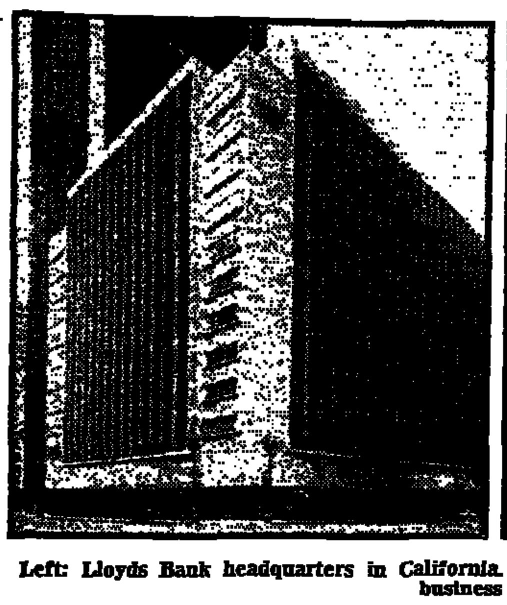
The feeling that Britain had been cheated out of the contract by a big Japanese soft loan caused scenes in Parliament and was strong enough to persuade the Government to intensify a review of the whole working of the aid and trade system.

One conclusion already drawn by the exporting fraternity is that Britain's historic approach to tied aid puts too much emphasis on giving money for development and not enough on sweetening financial packages to support price-competitive and technically proficient bids.

And yet the UK is estimated by the OECD (the Organisation for Economic Cooperation and Development) to account for nearly a quarter of all the "associated financing" undertaken by OECD member countries, a figure that does not suggest shyness or scruples.

Nevertheless, ministers are revising the system with three aims in mind: to speed up the system in Whitehall for giving approval for Government aid; to add China, Indonesia and possibly others to the list of countries eligible for soft loans; and to spread a given sum of aid money over a larger number of contracts.

At the same time, the historic principle of matching other government's inducements but not initiating a soft loan contest over any one bid, has already been modified for certain markets, especially in South-East Asia, where mixed credits have become a sine qua non of successful bidding. That principle may be modified further.




Left: Lloyds Bank headquarters in California. Right: Barclays Bank branch in Chicago's business district

Overseas earnings of UK Financial Institutions

(£M)

BANKING											
(Monetary sector and miscellaneous financial institutions)											
Credits											
Financial (including intra-company) services	150	188	257	318	357	417	480	573	723	824	952
Direct investment income from overseas subsidiaries, branches, etc.	93	118	131	169	190	291	350	452	300	267	64
Portfolio investment due income	—	10	10	20	40	50	80	200	350	839	1,420
Interest and discount on:											
Export credit	132	147	168	102	149	206	390	424	560	717	811
Other lending in foreign currencies	2,983	3,734	4,423	4,731	6,179	9,288	15,261	27,538	33,924	29,639	35,527
Other lending in sterling	144	159	214	157	198	270	474	872	1,158	1,308	1,737
TOTAL	3,502	4,356	5,203	5,497	7,113	10,522	17,035	30,059	37,015	33,594	40,511
Debits											
Direct investment income due to and services rendered by overseas affiliates	142	194	257	282	272	293	348	473	754	746	905
Interest on borrowing in foreign currencies	2,833	3,607	4,222	4,643	5,873	9,397	15,058	26,912	33,075	29,064	34,950
Interest on borrowing in sterling	347	354	341	308	343	720	1,203	1,528	1,899	2,050	2,317
TOTAL	3,322	4,155	4,820	5,233	6,488	10,410	16,609	28,913	35,728	31,860	38,172
Net earnings by UK banking Institutions	180	201	383	264	625	112	426	1,146	1,287	1,734	2,339

Rapid growth will be hard to sustain

Overseas Earnings

GEORGE GRAHAM

THE CITY has had cause to congratulate itself in recent years on its contribution to the UK's balance of payments. Financial institutions' overseas earnings climbed by 14 per cent in 1984 to over £6bn, two thirds of total invisible earnings.

Behind the cloak of invisibility, however, there lurks a still more remarkable performance by the UK banks. In the last five years they have raced ahead while insurance companies—previously the largest source of invisible exports—have barely kept pace with inflation in their contribution to the balance of payments.

Over the last five years, the UK banking sector's foreign earnings have grown at an annual rate of 83 per cent to reach a total of £2.3bn last year. Although this breakneck speed will be hard to sustain, banking has still kept up an annual growth rate of 35 per cent over the last two years.

Will the banks be able to hold their position in this arena, a position built in the early 1970s against the background of oil shocks, volatile interest and exchange rates and changes in the pattern of wealth holding around the world? The answer is viewed as doubtful by many, such as Mr Kit McMahon, Deputy Governor of the Bank of England who is shortly to take over the chairmanship of the Midland Bank.

"The evidence so far suggests that bank lending is unlikely to regain the dominant role it played in the 1970s, at least over the next few years, with economic circumstances now tending to favour securitised flows and the securities industry itself becoming increasingly competitive," he told a Swiss banking conference last month.

The banks themselves have already moved some way in meeting this swing towards securitised lending, which has now replaced tradition foreign currency lending as a source of overseas earnings. Last year, income on the UK banks' securities portfolios topped £1.4bn, while net interest on traditional loans remained stagnant at £577m.

Until 1983 the securities element of banks' earnings was relatively insignificant, trailing traditional interest and earnings for financial services in size.

But overseas earnings remain vulnerable to a host of problems, which may never materialise but which still loom over the British clearing banks, and demand evasive action.

The first is that of currency fluctuations. In recent years, the decline of the pound against other currencies—especially the dollar—has had the effect of increasing the sterling value of earnings from lending denominated in other currencies. In 1984 this factor may have increased the apparent growth in bank invisible exports by as much as 5 per cent, while in the previous year the effect may have been 8 per cent.

Concerted action by the world's major trading nations to bring down the value of the dollar—agreed on last month by finance ministers of the Group of Five at a meeting in Washington—could reverse this effect in coming years and reduce the apparent value of banks' invisible exports.

A second concern is that deflation, particularly with respect to oil and commodity prices, will lead to corporate default on international loans. "High real interest rates will almost certainly have the effect of sustaining high bad debt charges," commented one leading London stockbroker. "But more serious by far is the potential for large losses from energy and mineral loans. As oil and commodity prices decline, so will the value of the security held by the bank against resource based lendings."

This worry will weigh against the overseas subsidiaries of the London clearing banks, many of which have a history of making life difficult for their parents. Midland Bank's Crocker subsidiary in California is only the most traumatic of these experiences.

Finally, debt exposure in problem countries around the world threatens UK banks earnings in the coming years. While the more sensational debt crises of Latin America may now have passed, there remain serious difficulties.

Falling oil prices and the recent earthquake have put Mexico's rescheduling package in debt already, while it is by no means certain yet whether the Argentinian debt agreement will succeed.

Some brokers have recently calculated that a 20 per cent specific provision against Mexican loan exposure would put Midland into the red, and would cut the earnings per share of the other Big Four banks by between 20 per cent and 40 per cent.

South Africa adds to these difficulties. Banks' cross-border exposure to South Africa totalled $618m at the end of 1984, according to Bank of England statistics, but some London brokers have recently argued that banks such as Barclays and Standard Chartered are more vulnerable than these figures suggest.

Nor do the difficulties end there. Barclays made specific provisions of £68m in Hong Kong for its 1984 accounts, a reminder of the extent of the London clearers' exposure in the Pacific Basin countries.

These factors make the future seem more uncertain for overseas earnings. But although the dizzy growth rate of the past five years may be over, the banks still seem set to make a major contribution to the UK's invisible earnings.

Mr Charles M Winter

Profile: Royal Bank of Scotland

Merger makes for strength

AT LEAST three banks vie for the title of "the fifth force in UK banking" after the big four clearers: the Royal Bank of Scotland, Standard Chartered and the Trustee Savings Bank. Charles Winter has little doubt which qualifies best: he is the new chief executive of the Royal Bank.

The Royal's claims have just been strengthened by the complete merger into the group of Williams and Glyn's Bank, the Royal's English subsidiary which operated as a separate bank until the end of September. The result is a single group which spans the UK and the Channel Islands.

The idea was to make a sum that was greater than its parts, and enable the Royal to deploy the muscle of a combined balance sheet rather than having it split in two. The use of a single name is also expected to be an advantage.

The combined group has assets of £13.5bn and some 850 branches, which puts it well behind the smallest of the big four, Lloyds. But the branch net work is evenly distributed all round Britain, making it the only one that could truly be described as national. "We're unique in offering a banking service to the whole of Britain, north and south of the border," says Mr Winter, an energetic Scot who divides his time between Edinburgh and London.

The merger was a huge operation that took a special Parliamentary Bill and two years to accomplish. A publicity blitz was launched in the run-up in September to get the message across and assure Royal Bank customers, particularly those of Williams and Glyn's who would see their bank "disappear," that there was nothing to fear.

Mr Winter says he received 200 letters from customers, only one of which was in outright opposition.

The reorganisation has included changing hundreds of signs, and installing sophisticated new communications equipment between the bank's London and Edinburgh offices. The Royal was one of the first customers for a new teleconferencing service offered by British Telecom which enables people in the two centres to converse on a closed TV circuit.

But now that the merger is through, Mr Winter's task is to reap the benefits as quickly as possible. He expects to "thin down" the bank's Scottish branch network a bit ("we're very overbanked in Scotland") and add some branches in the UK to build up business south of the border.

Even in its enlarged form, he does not believe the group can offer a full service to the whole banking market. So the Royal's strategy will be aimed at the retail and smaller business market. The group also intends to widen the range of services on offer by drawing on subsidiaries like the recently acquired Charterhouse Japhet merchant bank, and its newly launched insurance company in Croydon.

"There are other gleams in our eye," said Mr Winter. "I think there's still a lot to go for in the UK."

The group plans a modest expansion internationally, focussing mainly on North America and the Pacific rim.

For Mr Winter, the merger is the culmination of a career which began in 1949 when he joined the Royal Bank in Dundee. On October 1, he succeeded Mr Sidney Procter who had overseen the whole operation and now moves on to become an adviser to the Governor of the Bank of England.

David Lascelles

Advantages reflected in steady expansion

Foreign Banks

MICHAEL BLANDEN

THE revolutionary changes taking place in the City of London's financial services industry are having a marked effect in enhancing its already considerable attractions as a centre for international banking activities for foreign banks.

Already dominant in areas such as the Eurocurrency markets, London is proving active in the development of the current rash of new instruments such as futures and options, allowing banks and other organisations to hedge their currency and interest rate exposures, and the new techniques of borrowing such as note insurance facilities and revolving underwriting facilities.

Moreover, as the City gears up towards next year's "Big Bang" on the Stock Exchange, it is being clearly understood that London has the potential to become one of three major legs (with New York and Tokyo) in a worldwide system of trading in international equities and securities. In the global village of banking, round-the-clock trading will be the norm.

The advantages of London as an international financial centre have been well rehearsed. They include its position in a time zone overlapping at each end of the day with the U.S. and the Far East; having as the native language English, the language of international banking: a liberal and sympathetic system of banking supervision which tends to encourage rather than to dampen innovation; and, perhaps most important, a large and experienced pool of banking and dealing talent.

These advantages have been reflected in the size and the steady growth of the foreign banking community in London. The magazine *The Banker* has been charting their development each year for nearly 20 years now; although there have been some goings as well as comings during that period, the overall numbers have never so far shown a decline. In 1967, a total of 114 foreign banks had direct representation of one kind or another, whether through branches, subsidiaries or, in many cases, modest representative offices.

By last year, *The Banker* counted 403 foreign banks represented directly in London. Of these 236 had full branches, another 29 operated through subsidiaries, while 138 had representative offices. A considerable number had more than one type of operation; quite a few of the American banks had merchant banking subsidiaries as well as branches, and in some cases also located their European headquarters in London.

On top of this, there were another 67 foreign banks, without other forms of representation, which participated in one or another of the 27 consortium or joint venture banking operations in the City.

A preliminary look at the returns for this year indicates that the foreign banking community will show further expansion. There have been signs recently, though, of a slowing in the rate of growth of the foreign bank numbers. One reason may be the greater caution evident in international banking as a result of the difficulties of the past few years. There have been a few departures. They include, for example, a couple of Argentinian banks (though one Argentinian, which in the previous year had allowed its London office to remain dormant, has now reactivated it).

Perhaps most prominently they include the U.S. West Coast bank Wells Fargo, one of the world's top 100—it ranked at number 79 in this year's listing of the world's Top 500 banks published by *The Banker*. Previously, the bank had a substantial branch operation in London with some 75 people. Now it has taken the view that it should concentrate its energies on its natural Pacific outlook and draw in its horns elsewhere.

It is perhaps inevitable, however, that the rate of growth of foreign banks in London should begin to tail off a little, because by now the number of banks of a size and type of business likely to justify international ambitions which are still absent from the City is relatively limited.

With the arrival last year of Crédit Agricole, the French "green bank," all but one of the world's top 100 were present. This year the absentee, Norinchukin, the Japanese equivalent of Crédit Agricole, has arrived on the scene—though the departure of Wells Fargo still leaves a gap.

In any case, the growth of the foreign banking community has tended over the years to go in waves, partly relating to the climate in international banking. The big boom came in the early 1970s, when the Eurocurrency markets were expanding rapidly and the American banks, including a considerable number of regional institutions, were moving substantially on to the international scene—there are some 70 U.S. banks in London. There was a further wave in 1977-78.

One point which is of particular relevance is that of reciprocity as regards access to markets

Recently, the pattern has changed. With effectively all the leading international banks already represented, growth has come from other directions. It has included a number of more specialised institutions which had previously not aspired to significant international activities. Some of them, like Crédit Agricole, are very large.

The arrivals have included a wide spread of banks from some of the developing countries, either because they need to borrow or they want to be able to provide a service to their expanding domestic clientele. And they have included smaller regional banks from a number of countries such as Japan and Scandinavia which have now begun to develop international aspirations.

The presence of the foreign banks *has* made a substantial contribution both to the City's international strengths and more generally to the development of the British banking market. Their competition has undoubtedly helped to shake up the domestic banking sector and to encourage greater efficiency.

The foreign banks are substantial and often aggressive lenders, accounting with the consortium banks for over a fifth of UK lending in sterling and for more than 70 per cent of lending in foreign currencies and they are substantial employers; at the last count foreign banks and securities houses together employed nearly 40,000 people in London.

Concern has been expressed that the relative attractions of London might be dwindling. Reasons cited include a possible tightening of regulatory constraints as the UK authorities come to grips with the aftermath of the Johnson Matthey Bankers collapse and rescue and, more important, the implications of the City revolution; the costs of operating in London—not merely high rents but other overheads such as rates, salaries and employee benefits; and the rival attractions of the international banking facilities in the U.S.

Yet there is little sign that at least the big international players are finding London any less attractive or essential. They have plunged with some enthusiasm (and well filled pockets) into the new developments in the City markets.

A number of foreign banks have paid good money for stakes in the revolution. They include, for example, Australia and New Zealand Bank (Capel-Cure Myers as well as Grindlays), Banque Arabe et Internationale d'Investissement (Sheppards & Chase), Chase Manhattan (Laurie Milbank and Simon & Coates), Citicorp (Scrimgeour Vickers), Crédit Suisse (Buckmaster & Moore), Hongkong & Shanghai Banking (James Capel), North Carolina National Bank (Panmure Gordon) and Royal Bank of Canada (Kitcat & Aitken).

This list is not exhaustive. And others have, with equal determination, taken the different route of buying in or building up their own talent — the prices being paid to recruit certain types of specialised experience in the City have become legendary. And there is some evidence of business being switched away from other centres. In particular, the German and Swiss banks, which in the past have often tended to use Luxembourg as an international banking centre, seem to be having some second thoughts. Deutsche Bank, for example, switched Eurobond business to London while the Swiss Volksbank this year upgraded its London operation to a full branch and moved its capital market trading in from Luxembourg.

There is clearly an interest on the part of the UK authorities in maintaining London's international strengths. It is clear also, though, that the developments in the banking markets and the City revolution are posing problems for regulators — Mr Peter Cooke of the Bank of England recently described the symptoms of "supervisors' twitch."

One point which is of particular relevance to foreign banks, though, is the issue of reciprocity in financial services and mutual access to each other's markets. If London is to remain open, the UK authorities have an interest in pressing as far as possible for equal access for British institutions elsewhere.

There has, for example, been an argument going on over this issue between London and Tokyo, with the Bank of England reluctant for various reasons to accede to the desire of the big four Japanese securities houses to acquire banking licences in Britain. Trying to create a "level playing field" may be one of the important preoccupations of Mr Cooke as he now concentrates his energies on the international aspects of banking supervision.

Foreign banks market share

	£ million							
	Sterling				Currency			
	Deposits	(%)	Advances	(%)	Deposits	(%)	Advances	(%)
U.S. banks	12,992	(6.4)	7,808	(6.2)	83,810	(17.6)	24,091	(20.1)
Japanese banks	10,599	(5.2)	3,878	(3.1)	151,721	(31.9)	23,521	(19.6)
Other foreign	28,937	(14.3)	14,091	(11.2)	140,592	(29.6)	35,652	(29.7)
Consortium banks	1,840	(0.9)	684	(0.5)	13,385	(2.8)	6,209	(2.7)
	54,368	(26.8)	26,164	(21.0)	389,510	(81.9)	86,473	(72.1)

Figures in brackets are percentages of the total for all British banks

Source: Bank of England, Quarterly Bulletin, (August 21 1985)

UK BANKING 11

Radical change fires uncertainty

Gilt-Edged Market

JOHN MOORE

"ON OUR assessment of the market, the figures look reasonable. Markets are not independent any more, they are interdependent as far as capital flows are concerned. We have to participate." — *U.S. investment banker.*

"The gilts market is going to be a bit of a blood bath. Whether the volume of trade increases sufficiently for the new participants remains to be seen."—*British broker.*

The two views reflect the uncertainty surrounding the future of the British Government securities market which is undergoing its most radical series of structural changes for years. These changes have been precipitated by the revolution taking place in London's financial community.

Following the deal between the British Government and the Stock Exchange over the future operation of the securities market in London in 1983, in which minimum scales of commission were to be dismantled on securities transactions by the end of 1986, potential commercial pressures forced British securities firms to look for outside capital.

As numerous British firms forged links with outside groups, with a view to eventual merger, major overseas groups strengthened their grip on the financial community in London.

This in turn led to other changes. The system in London in which brokers could act only as agents and market makers or jobbers could act only as principals was forced to change as competitive pressures loomed. In order to compete the Stock Exchange concluded that a single capacity market was no longer supportable, given the new competitive pressures.

The Stock Exchange decided that single capacity would disappear at the same time as minimum commissions were dismantled—scheduled for the autumn of 1986.

In the early stages of the financial services revolution two existing firms of market makers in British Government securities, Wedd Durlacher Mordaunt and Akroyd & Smithers, with around 40 per cent of the market each, formed outside links. Wedd Durlacher is to merge with Barclays Bank, while Akroyd & Smithers is merging with Mercury International, the parent company of S. G. Warburg, the merchant bank, Mercury is also grouping into its securities operations two stockbrokers, Mullens and Rowe & Pitman.

A market dominated by just two market makers with several smaller firms operating to a much lesser extent is now to be transformed by the participation of 29 market makers in British Government securities, with at least 10 major U.S. investment and financial groups playing a key role.

A market dominated by just two market makers with several firms operating to a much lesser extent is to be transformed by the participation of 29 market makers

Understandably there is considerable nervousness about the new structure. Most potential market makers agree that there will be too many participants. Mr John Barkshire, chairman of Mercantile House, which has built a gilt-edged primary dealer called Alexanders Laing & Cruickshank out of discount house and stockbroking components said recently: "For the first three years it is going to be very unprofitable business to be in."

Others like Schroders, the British merchant bank, and Drexel Burnham Lambert, the U.S. securities house, after initial interest decided not to become dealers in the new market.

Mr Win Bischoff, chairman of Schroders, said at the time the Bank of England announced the new participants in June this year, that he had hoped there would be half the number of participants. "We went in originally on certain assumptions. But we do not believe we can meet these assumptions given the number of participants."

At Drexel Burnham Lambert, Mr Roger Jospe, a senior executive vice president said: "In view of the size of the total market, the number of players, the competitive aspect, and the capital and investment that it calls for, we had to make a judgment. It appears not to represent an adequate return on our proposed investment."

To operate in dealing in British Government securities —the gilt-edged market—the potential market makers will have to be members of the Stock Exchange to ensure that regulatory controls can be maintained.

According to the Stock Exchange, gilt-edged market makers are to be separately established as companies or partnerships with dedicated sterling capital in the UK. They will be expected to deal only in sterling fixed interest, floating-rate or index linked securities and sterling money market instruments. Market makers can operate within a securities group and share in its common services and personnel in a cost effective manner.

Other entities will form part of the gilt-edged structure. A new form of intermediary, familiar in the U.S. securities market, is to be introduced in the UK and allowed to operate by the Bank of England. This is the inter-dealer broker.

The inter-dealer broker will provide dealing facilities between the market makers in British Government securities. Their activities will be confined to inter-dealing in money market instruments and money broking. They will have to be separately capitalised entities and the management and staff will have to be separated from that of other entities within a securities group. This is designed to ensure that conflicts of interest are avoided.

Six inter-dealer brokers intend to participate in the new market and again the potential competitive pressure have led others to withdraw before they even put in their application for approval

R. P. Martin, a money broker which was intending to apply for inter-dealing broking status in the new market, said that it had decided not to submit a formal application to the Bank of England. "It is going to be a crowded market," they said at the time of the announcement of the future participants in August this year. "There will be room for only a few players and we wish them the best of luck. We looked at the situation very carefully, but we decided that it was not worth walking the fall route."

Other inter-dealer brokers feel that the market will only be able to support four dealers at most.

The other components of the British Government securities market are the Stock Exchange money brokers. In the new market there are to be nine participants. Stock Exchange money brokers will be intermediaries for regulated stock borrowing and lending to facilitate liquidity in the gilt-edged market and other securities and they, like all the other participants in the new market, have had to demonstrate a future demand for their services in their applications to the Bank of England.

Moreover, the Bank appears to be relaxed about ownership of Stock Exchange money broker with a market maker or a new integrated securities firm offering both agency and principal services.

In spite of the fears that there will be a bloodbath in the market, the Bank of England, the Stock Exchange and the Government are reluctant to intervene in curbing the number of participants in the new gilt-edged market. They prefer that market forces take their toll and establish the right number.

However, as one British banker observed: "What they do not realise is that it is highly unlikely that firms will withdraw once they have got a place, as it will mean too much loss of face. They will just shoulder the losses."

GILTS MARKET PARTICIPANTS

THE MARKET MAKERS
Aitken Campbell & Co. (Gilts).
Akroyd, Rowe & Pitman, Mullens & Co.
Alexanders, Laing & Cruickshank.
Bank of America.
Barclays de Zoete Wedd.
Baring, Wilson & Watford.
BT Gilts.
Cater Allen Holdings.
Chase, Laurie & Simon.
Citicorp Scrimgeour Vickers.
County Holdings Group (National Westminster Bank).
CSFB (Gilts).
Gerrard & National.
Goldman Sachs Government Securities (UK).
Greenwell Montagu Gilt-Edged.
Hill Samuel Wood Mackenzie (Sterling Debt).
Hoare Govett Sterling Bonds.
James Capel Gilts.
Kleinwort, Grieveson, Charlesworth.
Lloyds Bank Group.
Merrill Lynch, Giles & Cresswell.
Messel/Shearson Lehman.
Morgan Grenfell Government Securities.
Morgan Guaranty Gilts.
Orion Royal Bank/Kitcat & Aitken.
Phillips & Drew Moulsdale.
Joint venture between Prudential-Bache and Clive Discount.
Salomon Brothers UK.
Union Discount Securities.

THE INTER-DEALER BROKERS
Charles Fulton (IDB).
Garban Gilts.
Mabon, Nugent International (Gilts).
Fundamental & Marshall Brokers.
Tullett and Tokyo (Gilts).
Williams, Cooke, Lott and Kissack.

STOCK EXCHANGE MONEY BROKERS
Cazenove Money Brokers.
Hoare Govett (Moneybroking).
James Capel Money Broking.
King & Shaxson (Securities).
Lazard Brothers & Co.
LM (Money Brokers).
P-B Securities Money Brokers.
Rowe & Pitman Money Broking.
Sheppards Moneybrokers.

Corsetry removed layer by layer

Discount Houses

JOHN MAKINSON

IF ANY corner of the City of London has retained a reputation for short working days, long lunches and imperviousness to change, it is the London discount market.

The market itself has never been sure whether to cultivate or resent that image. The formal and constraining relationship between the Bank of England and the discount houses has discouraged entrepreneurialism within the market while providing the houses—over time—with a secure enough livelihood.

But the Bank's corsetry is now being removed layer by layer, leaving the market with unimagined opportunities and a vulnerability with which it is by no means familiar.

A cosy relationship has until now suited both the Bank and the discount houses. Rather than deal directly with the banking system, the Bank has preferred to buy and sell bills through the discount market which is, because of the relatively small size of its members, thoroughly dependent on the Bank for its livelihood.

The houses have therefore been obliged to deal with the Bank on its own terms, in return for which the Bank has granted the houses various privileges—notably exclusive access to its "discount window" and a tacit guarantee that struggling houses will be supported.

That relationship will not change overnight. For the time being at least, the Bank will have direct dealings only with the discount houses and will lend support. But, just as the Bank's relationship with the gilt-edged jobbers is being recast by the introduction of gilt-edged jobbers is being recast by the introduction of gilt-edged market-makers, so the move towards a fixed-interest market modelled on U.S. lines will erode the privileged status of the discount houses.

As the distinction between short-term money market instruments and Government bonds becomes more blurred, the Bank will permit the discount houses to become active in the term markets while the gilt-edged market-makers extend in the opposite direction towards bill business.

Diversification may help improve the quality of earnings and provide a hedge against the consequences of rising interest rates, but it also takes the houses into unfamiliar territory.

But, while the internationalisation and deregulation of London's markets may be the prime forces for change in the discount market, it is most unlikely that the houses could have carried on as before even in a regulated environment.

Over the past decade the discount market has clearly separated the men from the boys. The largest houses—Union and Gerrard & National—have grown to represent roughly 50 per cent of the market's overall capacity, while the smaller members have diversified, merged or shrunk.

The reason for this is straightforward: It is no more costly for a house to execute a single transaction of £10m than a transaction of £100,000. Consequently, those houses which sport a capital base large enough to support the larger transactions have been more profitable than the smaller houses.

This has strengthened their capital base still further and so widened the gap with the smaller houses, which have on occasion been driven to take imprudent principal's risks in order to keep up. It was just such a risk—in the gilt-edged market—which almost destroyed Smith St. Aubyn in 1982.

The Bank has responded to the organic and environmental pressures for change by encouraging mergers and takeovers within the discount market, as well as by allowing the houses' access to outside capital (in the past they had been permitted to raise funds in the stock market only when threatened with failure or in order to fund diversification).

The change of tune became evident in February last year when the Bank sanctioned the purchase for £29m of Alexanders Discount, a medium-sized house, by Mercantile House, the UK financial services group. A few months later, Mercantile added another discount house—Jessel, Toynbee & Gillett—to its collection of subsidiaries.

Since then the entry barriers have fallen thick and fast. Both Union Discount and Cater Allen have bolstered their capital bases through rights issues, while two of the smaller members have been bought by foreigners. Citicorp acquired Seccombe Marshall and Campion for £7m, while Banque Belge bought Gerald Quin Cope for a modest £3.1m. Prudential Bache, meanwhile, has acquired a one-third interest in Clive Discount.

The London Discount Market Association, once 13-strong, now counts only 10 members in its ranks, while the number of independent houses has narrowed to a handful. Union, Gerrard and Cater are probably big enough to look after themselves, but Smith St. Aubyn and King and Shaxson would almost certainly look favourably on any takeover approach.

The independent houses are now formulating their strategies. Gerrard, Union and Cater have all been granted licences as gilt-edged market-makers (Gerrard first entered into a joint venture with brokers James Capel and then dropped the idea) and are reckoned to have adequate capital for the purpose.

Cater, traditionally the most adventurous of the houses, already has fund management interests and recently diversified into insurance underwriting through the acquisition of a Lloyd's agency from Sedgwick Group. Gerrard, meanwhile, has acquired control of a sizeable commodity broker, Intercommodity.

Discount houses are no strangers to risk—it is impossible for them to make money when short-term interest rates are rising sharply and their earnings records are notoriously volatile—but they are visibly apprehensive about the new risks they are being asked to shoulder.

Participation in the gilt-edged market, while a natural extension of their present activities, is a mixed blessing. Compared with their larger and international competitors, they may be short of market information (particularly about dollar-based markets) and the strength of their distribution network has yet to be tested.

Diversification may help to improve the quality of earnings and provide a hedge against the consequences of rising interest rates, but it also brings the houses into unfamiliar areas of activity. The lunches, not surprisingly, are becoming shorter and the days longer.

City alliances

STOCKBROKER (S) OR JOBBER (J)	FINANCIAL INSTITUTION/ BANK	HOLDING
Akroyd & Smithers (J)	Mercury International Group (Warburg)	29.9% (£41m)
Akroyd & Smithers (J) + Rowe & Pitman (S) and Mullens (S)	Mercury International Group (Warburg)	Market capital of £350m
Buckmaster & Moore	Credit-Suisse	29.9%
Capel-Cure Myers (S)	Grindlays Holdings	29.9% (plans 100%)
James Capel (S)	Hong Kong and Shanghai Banking Group	29.9% (£25m) (plans 100%)
County Bisgood (J)	National Westminster	29.9%
Fielding, Newsop-Smith (S)	Nat West (County Bank subsidiary)	5.0% (plans 100%)
Galloway & Pearson (S)	Exco	29.9% (plans 100%)
W. Greenwell (S)	Samuel Montagu (60%)	29.9% (plans 100%)
Grieveson Grant (S)	Kleinwort Benson	5.0% (plans 100%)
Henderson Crosthwaite (S) (Far East)	Baring Brothers	77%
Hoare Govett (S)	Security Pacific	29.9% (£8.1m)
Laing & Cruickshank	Mercantile House	29.9%
Laurie Milbank (S) (+ Simon & Coates	Chase Manhattan	(£30m) (plans 100%)
L Messel (S)	Shearson Lehman	5.0%
Montague Loebl Stanley (S)	Save & Prosper	5.0% (taking 100% later in 1986)
Panmure Gordon (S)	NCNB Corp	29.9%
Pember & Boyle (S)	Morgan Grenfell	5.0% (plans 100%)
Phillips & Drew (S)	Union Bank of Switzerland	29.9% (plans 100%)
Pinchin Denny (J)	Morgan Grenfell	29.9% (plans 100%)
Quilter Goodison (S)	Skandia	29.9%
Rowe & Pitman (S)	Mercury International Group	29.9% (£16.2m)
Sheppards & Chase (S)	BAII Group	29.9% (plans 100%)
Simon & Coates (S) (see Laurie Milbank)		29.9% (£6.5m)
Smith Brothers (J)	N. M. Rothschild (through Smith Bros	
Smith Brothers (J)	N. M. Rothschild	24%
Strauss Turnbull (S)	Hambros	29.9%
Vickers da Costa (S) (merged with Scrimgeour Kemp-Gee)	Citicorp	29.9% (£20.0m) + 80% Far East
Wedd Durlacher Mordaunt (J)	Barclays Merchant Bank	29.9% (£30m) (plans 75%)
Wood Mackenzie (S)	Hill Samuel	29.9% (£5.9m)
de Zoete & Bevan (S)	Barclays Merchant Bank Barclays Wedd Durlacher & de Zoete	5.0% (plans 75%)

Source: Noel Alexander Associates

Build up in tension towards Big Bang

City Revolution

BARRY RILEY

THERE is now just one year to go to the "Big Bang." The restructuring of Stock Exchange commission scales and trading systems is scheduled for sometime in October 1986. This means that the City of London is two-thirds of the way through the transition period which began when the historic deal between the Stock Exchange and Mr Cecil Parkinson was struck in the summer of 1983.

The first year of that period was dominated by the scramble for partners as the existing major broking and jobbing firms within the Stock Exchange sought links with powerful outside institutions.

Increasingly the second year has been characterised by the shifting of individual people, as firms have sought to fill gaps or as practitioners (sometimes moving in whole teams) have looked for more promising or more remunerative niches.

In the final year there is bound to be a build-up of tension as securities firms complete their reorganisations and install their new trading technology but are unable to complete the transition to the new dual capacity trading systems.

A key date will be next April 1, when Stock Exchange member firms will be permitted to finalise their financial reconstructions (so that they can be owned as to 100 per cent by outside institutions rather than as to a maximum 29.9 per cent as at present). An uncomfortable six months will follow, during which there are likely to be many accusations that firms have jumped the gun.

It would be surprising if everything went absolutely smoothly, because this is a truly remarkable exercise in deregulation. The London Stock Exchange has been closed to banks for many years, but now it is being opened up to a very large number of British and foreign banks and securities houses, on condition that broadly similar opportunities are open to British firms on the various overseas capital markets—a rule that the Japanese have so far fallen foul of.

The transition from protected market to international free-for-all promises to be traumatic. And the sheer prosperity of the London securities markets in the past few years could make the changeover still more painful. Brokers have been trading at high volumes with the continuing benefit of the fixed scale of commissions. Abruptly, in a year's time, those rates of commission will become negotiable. They will tumble, especially in the gilt-edged market.

But for the time being, very large profits are being made and correspondingly inflated personal incomes are being paid. Big sums are being offered to lure key personnel from one firm to another.

These payments come on top of the very large sums which have already been committed by many banks to purchase the goodwill of stock market firms, and the substantial further amounts which will be required to set them up in larger, more modern premises and install new technology.

Expressed concern

Recently the City merry-go-round was attacked by the deputy governor of the Bank of England, Mr Kit McMahon, who expressed concern that things might have "gone too far in the City transfer market." The cost base was being pushed up, and as a regulator Mr McMahon was also worried that the stability of staffing of firms was at risk.

He said: "It is worrying that a firm authorised to carry out a financial business on the basis of a prospectus in which certain individuals are a key component can quite rapidly lose those individuals to its competitors."

However, it is arguable that the Bank of England itself has encouraged some of this bidding for the limited pool of skilled labour in the securities markets, for instance by licensing as many as 29 market makers for the new-style gilt-edged market.

Most of these contenders had little or no existing capability in the gilt-edged market, and although in some cases personnel could be switched from comparable operations elsewhere—such as the Eurobond market—most of them were bound to call in headhunting firms to help complete their line-ups of gilt-edged traders and salesmen.

In opening up the London Stock Exchange, the British authorities have unleashed some very powerful forces. Major international banks can afford to spend sums like £50m or £100m without a great deal of concern (and indeed they have failed even to disclose the sums to their shareholders in many cases).

They usually regard such investments as long-term stake money and are not greatly concerned with the short-term economics of their securities market operations.

There is thus a danger that the normal rules of business will not apply; that many participants in the new-style markets will be content to make losses for extended periods, and that excessive competition will not drive the weaker performers out of business. So long as they are backed by wealthy and indulgent parents.

Different tactics

In the circumstances, different banks have adopted widely different tactics. Barclays has bought heavily into two of the biggest broking and jobbing firms, but Lloyds is building a modest operation from scratch. Security Pacific and Citibank are big players in the City Revolution, but other major U.S. banks such as Manufacturers Hanover are staying well clear.

Not surprisingly, different bankers are expressing different views about the aftermath of the Big Bang. Those not at present involved in the London securities markets are happily predicting a bloodbath—and some of them, perhaps, are looking forward to being able to pick up people and firms cheaply in 1987 and later.

Banks which have paid high prices to secure a stake in the existing market place are forced, however, to take a more positive view. It will be tough to begin with, they agree, but good firms will survive and then prosper—the pattern of the New York markets after the switch to negotiable commissions there in 1975.

All of these contenders admit that a good many new groupings will in due course fall by the wayside. But each one claims that it will be among the survivors.

According to one investment banker who has been closely concerned with the City Revolution the apparently risky, free-spending approach of many banks can be explained by the Theory of the Strategic Imperative. This is the chance of a lifetime for the big British and American banks to get into the London stock market, one of the world's biggest. For regulatory reasons, the same opportunity does not exist in New York or Tokyo. The banks must jump through the window now in London, according to the theory, or run the risk that it will be slammed shut again.

Will fortune favour the brave, or those who watch and wait? In a year's time the answer will start to emerge.

Profile: NatWest Investment Bank

Determined to weld tightly knit group

MR CHARLES VILLIERS, chief executive of NatWest Investment Bank (NWIB or Enwib), regards it as part of his job to ensure that UK financial groups can challenge the growing dominance of U.S. and Japanese institutions on the world markets.

And with Enwib, he leads one of the more powerful groups to have emerged from the City Revolution. Formed only a month ago by Britain's second largest clearing bank, Enwib will have capital of £300m, and will combine the capital markets, merchant banking and investment activities of the National Westminster Bank group. That includes County Bank, NatWest's merchant banking subsidiary, as well as stockbrokers Fielding Newson-Smith and jobbers County Bisgood which NatWest is in the process of acquiring. There will also be the gilt-edged dealing operation that NatWest is forming.

Mr Villiers, who formerly headed County Bank, is determined to weld Enwib into a tightly knit group, where everybody shares "a common vision," and where the most is made of both the strength of a large clearing bank, and the entrepreneurship of an investment bank.

"We want to remain an independent, flexible operation, but co-ordinate things in a way so that we can use the muscle of the NatWest group," he says.

Whether he succeeds in bridging what many have called "the culture gap" in the City will be a key to Enwib's success. But he intends to get the best of both worlds by using the County Bank name on products which demand flair, and the NatWest name where capital weight wins through, as with the underwriting of large debt issues.

Enwib's services will be aimed largely at corporate and Government clients. But it is also intended to be the vehicle for NatWest's planned entry into the retail investment market.

Although plans are not firm at this stage, the idea is to develop a financial advisory and broking service that can be marketed to NatWest's huge customer base through its 3,000-strong branch network.

At the moment, NatWest receives hundreds of thousands of investment inquiries and instructions from customers, but refers them all to other stockbrokers.

It it could only retain a fraction of that amount for Enwib, it would be well on the way to having a sizeable stockbroking business. "It will take time for people's habits to change," said Mr Villiers. "But when they do, we shall have the network in place."

Overseas, it is intended that Enwib shall be active on Japan and the U.S., though it faces regulatory hurdles in both markets because of restrictions on the combination of commercial and investment banking.

Enwib is hoping for a securities licence in Tokyo. In New York, County Bank has already lodged an application for a broking licence, hoping to exploit an apparent gap in the law.

None of this ensures that Enwib will be able to take on the large U.S. and Japanese groups, some of which will be several times its size, but its chances are better than most.

Mr Charles Villiers, chief executive of NatWest Investment Bank, is keen that everybody in the group should share "a common vision" as they face up to challenge U.S. and Japanese domination of world markets

David Lascelles

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Monday October 7 1985

INTERNATIONAL BONDS

Buoyant market for floaters

FLOATERS are what Eurobond investors want to buy at the moment. Issues last week in dollars, sterling, yen and D-Marks all met good receptions, and it looks likely that more deals will come this week, **writes Maggie Urry in London.**

It is the usual story in which investors, such as banks, find that their assets are melting away and become almost desperate to replace them with something, even lower-yielding floaters.

Meanwhile borrowers are awakening after the summer lull and are keen to launch deals once more. Prominent among them are U.S. banks, which are trying to improve their ratios and believe that floaters are the way to do it cheaply. Citicorp's deal last week gives the bank cheap money for 20 years, while also satisfying asset-hungry investors by allowing them to lock into a spread above London interbank offered rate (Libor).

Like Citicorp, Wells Fargo launched a deal paying interest at 22½ basis points over one month London interbank bid rate (Libid). These monthly fixings could become a trend among Eurodollar borrowers who expect the yield curve to stay positive.

Crédit Commercial de France has got down to a fine art the idea of floaters with warrants to buy a straight bond in another currency. It seems to be the only bank, though, which has found a counterparty for the swap on the straight bonds. As a result, CCF has had a monopoly on the issues, launching another successful one last week. It was the first to give investors a play on the D-Mark, fixing the exchange rate at DM 2.575 to the dollar.

Fixed rate Eurodollar bonds were confined to a narrow trading range last week, in tandem with the New York bond market. The outlook is even more uncertain than usual and only one deal was launched last week – for Nippon Credit Bank. Even this, despite being considered correctly priced, did not find an enthusiastic response.

Activity was seen in the recent Washington Post issue. This partly-paid deal had not been going well and a number of banks appear to have gone short of the bonds. By Friday the bonds were trading well above issue price as Salomon Brothers, the lead manager, was said to be squeezing these shorts. Credit Suisse First Boston decided to withdraw from the co-management group.

The second borrower in the Euroyen floating rate market, like the first, is French. Caisse Nationale des Télécommunications launched two yen issues on Friday – a floater led by Daiwa Europe and a straight under Nomura International's management. The floater proved the more desirable of the two and traded close to its issue price of 100.10.

Premium pricings for floaters are becoming something of a fashion in the Eurobond market as lead managers try to find new ways to pare the commissions.

In the Eurosterling market, Bank of Nova Scotia also chose a premium pricing of 100.10 for its floater with commissions at 16 basis points. The bonds traded around 100.03, reflecting good demand, and giving lead manager Samuel Montagu a reason to celebrate.

Most recent building society to come to the market is the Britannia – surely a name to appeal to European investors. As in the other deals, the first coupon cannot be paid until April next year. However, lead manager Hambros, helped with the deal by Fulton Packshaw, announced that the first coupon would be set at a rate of 11½ per cent.

That was seen as a smart move since it removes uncertainty for investors, when many are expecting interest rates to fall before the issue closes. This doubt may have deterred some investors from buying the earlier building society issues and these could pick up as their coupons are fixed. The Halifax is to fix its rate today.

Commerzbank showed how strong demand is for D-Mark floaters when its DM 500m issue, the only one scheduled for October, was trading more than 30 basis points above its par issue price.

So far the record D-Mark October calendar has not done too much damage to the market, although the two fixed rate deals were moving slowly at first. Now that borrowers' names are not revealed at the beginning of the month investors are in a quandary as to whether to buy the first issues or save themselves for deals later in the month.

Coca-Cola is a name investors love, and despite syndicate books groaning with expensive-to-fund New Zealand dollar paper, Morgan Guaranty was able to syndicate a NZ$50m issue successfully.

Australian dollar bonds are proving harder to move, and some restraint on the part of issuers is needed again. Security Pacific Australia set a new benchmark with a 14 per cent coupon for its issue and it will be a brave or foolish borrower who tries to go much below that.

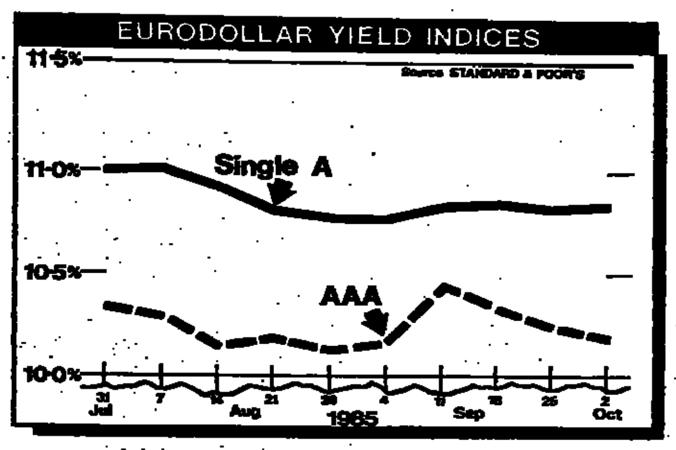
In the Swiss franc foreign bond market, new issue yields are definitely descending, although the secondary market is only slightly firmer over the week. Demand has picked up and new issues are generally meeting a good reception.

Last but not least, the new Eurolira bond market got off to a flying start with an issue for the European Investment Bank which ended the week around 99¾, well inside the 1⅝ per cent fees.

● New international bond issues in the first nine months of this year totalled $119.1bn, according to statistics compiled by the Eurobond Letter and IDD Information services. That already exceeds the amount raised in 1984. U.S. borrowers have taken close to 22 per cent of the money, with the Japanese taking 13 per cent.

The biggest single borrower was the World Bank, which raised $6.27bn. Crédit Suisse First Boston heads the league table of Eurobond book runners, while the top performing bond fund, out of 130 surveyed, is Royal Trust International, a multi-currency fund, with a nine-month return of 22.66 per cent.

EURODOLLAR YIELD INDICES



EUROMARKET TURNOVER
Turnover ($m)

Primary Market

	Straights	Conv	FRN	Other
U.S.$	1,490.0	6.3	2,376.6	132.2
Prev	2,115.3	236.0	22.6	1,115.7
Other	1,536.0	0.0	634.0	363.7
Prev	900.8	0.0	0.0	142.2

Secondary Market

	Straights	Conv	FRN	Other
U.S.$	14,879.8	1,083.3	14,052.6	2,224.5
Prev	12,960.3	1,970.1	12,852.8	1,963.3
Other	5,577.5	74.7	1,213.7	2,049.8
Prev	3,688.5	48.9	320.1	1,633.9

	Cedel	Euroclear	Total
U.S.$	9,944.8	26,300.4	36,245.2
Prev	8,844.7	24,394.6	33,239.3
Other	5,575.6	5,893.9	11,469.5
Prev	3,724.4	2,910.1	6,634.5

Week to October 3 1985 — Source: AIBD

German group plans listing

By Jonathan Carr in Frankfurt

FAG, Kugelfischer Georg Schafer, the family-controlled West German concern which is one of Europe's top bearings manufacturers, plans to make its first-ever public share issue later this month.

A nominal DM 80m ($30.7m) of the company's DM 165m basic capital will be made available in the form of bearer shares with voting rights – still leaving the Schafer family with a comfortable majority.

No issue price has been announced, but it is felt that the shares will be aggressively priced given the general buoyancy of the stock market and the company's improved results.

FAG, Kugelfischer, founded 102 years ago, boosted world group net profits last year to DM 119m from DM 25m, on turnover up by 15.9 per cent to nearly DM 2.8bn.

Besides its key strength in making ball, roller and needle bearings, the company has been diversifying into measuring instruments and precision tools.

● Bertelsmann, the media concern, plans to make its long-awaited listing of "Genussscheine" (profit sharing certificates) with a nominal value of DM 330m on leading West German stock exchanges next March.

So far the certificates, held mostly by current and former employees of Bertelsmann, have been traded only within the group. They command a price of around DM 250 per certificate, and in recent years the company has been paying annual interest of up to 15 per cent.

Holders of the certificates do not have voting rights, and there is no sign that Bertelsmann will be making any full public share issue in the foreseeable future.

EURONOTES AND CREDITS

Quebec Province blazes trail with Canadian dollar MOF

THE PROVINCE of Quebec, continuing the current spate of refinancings of old loans to get the cheaper terms now available, is breaking new ground with what is believed to be the first multi-option facility (MOF) to be denominated in Canadian dollars, **writes Alexander Nicoll in London.**

Its C$750m 10-year deal, replacing a loan signed in 1981 comprising C$500m and $250m, was launched at the weekend by the Montreal-based National Bank of Canada, with Bank of Nova Scotia and Canadian units of Bank of Tokyo, Chase Manhattan, Crédit Lyonnais and Citibank.

It consists of a tender panel facility for multi-currency short-term advances and Euronotes, backed by a revolving credit providing the borrower with no less than six interest rate choices: in Canadian dollars, prime rate flat, or a quarter-point margin – rising to ⅜ after four years – over bankers' acceptances or London interbank offered rates (Libor); in U.S. dollars, prime rate or ⅜ above CD rates, rising to ½, or ¼ above Libor, rising to ⅜.

Quebec will pay an 8 basis point fee on undrawn commitments, a 2 basis point facility fee, participation fees of up to 7½ basis points and 6¼ basis point utilisation fee if the credit is more than half drawn. The total amount of the facility will diminish by $150m each year from the end of the sixth.

Mexico's earthquakes and its subsequent deferral of loan payments have not helped unconventional attempts by the country's banks to convert interbank deposits into longer-term commitments from their foreign correspondent banks. Arrangements to roll over $5bn of interbank deposits, which were at the centre of the turmoil when the debt crisis broke in 1982, technically expire at the end of this year – although it is naturally expected that banks will maintain them.

One of several efforts to put them on a more solid footing, with the blessing of the Mexican Finance Ministry, has been mounted by Banco Internacional. It is seeking to replace about a quarter of its deposits with a $50m four-year facility under which it would issue short-term notes, guaranteed by the London branch of First Interstate Bank of California. Total cost to the borrower would be about 85 basis points above Libor.

The deal was about one-third subscribed before the earthquakes, but initial enthusiasm has inevitably been replaced by caution as the latest developments are assessed.

Clearly, such deals could be attractive to borrowers, since they potentially reduce costs, and to lenders, since they may carry accounting benefits and could create short-term and saleable assets if Mexico's financing climate improves. Banks, accepting that their money is likely to be tied up for some time, may at least welcome the replacement of ad hoc rollover arrangements.

Banco Nacional de Mexico recently launched a similar $100m commercial paper facility in the U.S., with the guarantee of an insurance company. Another deal is also believed to be in the pipeline.

Elsewhere, Hungary's $400m loan package, launched last week, is understood to be going well with the management group expected to be completed this week. ENEL, the Italian state electricity concern, has signed a $200m seven-year refinancing loan in the U.S. with 20 banks including J. Henry Schroder Bank and Trust, and is also refinancing another $175m loan through Chase Manhattan over eight years at 45 basis points over U.S. CD rates.

Credit Suisse First Boston is arranging a $100m five-year revolving credit for Portland General Electric, of Oregon, and a $50m revolving and Euronote facility for Lear Siegler. The Kingdom of Spain is understood to be considering a Euroyen borrowing, but may opt instead to raise domestic yen.

Mohawk Data sale reduces debt

BY LOUISE KEHOE IN SAN FRANCISCO

MOHAWK Data Sciences, the financially-troubled New Jersey computer systems manufacturer, has agreed to sell five of its U.S. operations to venture capitalist groups for $180m.

Friday's announcement ended months of speculation. Mohawk announced that it had agreed to sell its service, manufacturing and credit operations to a private company to be formed by two venture capital firms – J. J. Whitney & Co and Welsh Carson Anderson & Stowe. Mohawk will retain a 10 per cent holding in the newly-formed company.

The proceeds of the sale will allow Mohawk to reduce its outstanding bank debt from $150m to around $40m and the remaining debt will be restructured, the company said.

The sale agreement follows several aborted attempts by Mohawk to find buyers for parts of its operations. Earlier this year, under pressure from Mr Asher B. Edelman, who holds an 8 per cent stake in the company, Mohawk began trying to liquidate its assets, but several previous sales agreements fell through.

Last month, however, Mohawk agreed to sell its European sales and service operations to Recognition Equipment for $22m.

For the year ending April 30 Mohawk posted losses of $181.2m.

INTERNATIONAL CAPITAL MARKETS

U.S. MONEY AND CREDIT

Concern over forthcoming Treasury auction

U.S. BOND prices drifted erratically lower last week in the face of weak retail demand, caused by dollar and economic uncertainties and mounting concern about the expected $27bn flood of new government paper expected to be unleashed later this month when Congress finally raises the debt ceiling limit.

Prices in the government bond market fell by an average of ½ to ¾ a point, with the Treasury long bond slipping back to par and sending the yield climbing to 10.63 per cent at the Friday close, up from 10.57 per cent a week earlier. Corporate bond prices fell even more sharply under the weight of a hefty $1.5bn in new paper brought to market.

Most short-term U.S. interest rates also edged higher as the Fed funds rate, pushed up mostly by seasonal factors, averaged 8.13 per cent in the latest week. Nevertheless, the Treasury yield curve continued to widen—reaching 351 basis points from three months to 30 years, or about 30 basis points more than at the end of August.

The slight upturn in short rates had no impact on the dollar, which retreated further, especially against the yen and D-mark, under the threat of continued co-ordinated central bank intervention. The recent sharp decline in the U.S. currency following the G-5 meeting two weeks ago—the results of which were being reviewed at the IMF meeting in Seoul over the weekend—has begun to make investors more nervous, particularly about the possibility of a drying-up in foreign demand.

However, as Mr David Jones of Aubrey Lanston notes: "The most immediate market depressant is concern over the avalanche of new issues which will descend upon the market following an end to the U.S. Senate's theatrics over the debt ceiling bill." With Uncle Sam now effectively "out of money," passage of the debt ceiling bill is expected some time this week.

In its wake, the Treasury is expected to auction more than $17bn of notes and bonds divided into maturities of four, seven and 20 years, quickly followed by a $10bn two-year note sale late this month and then a $22bn package of three-year, 10-year and 30-year paper at the start of November.

According to Mr Frank Mastrapasqua of Smith Barney, the Government will have to raise more than $60-$65bn in new cash in the current quarter and a similar amount in the first quarter of 1986.

In the meantime the debate continues over the current state of the U.S. economy and the probable Federal Reserve response. The most significant indicator of the current state of the economy was Friday's report on last month's employment picture, the first data for September.

The September statistics, including a 1/10th point increase in civilian unemployment to 7.1 per cent, a smaller than expected 128,000 increase in non-farm payrolls and a resumed 111,000 decline in manufacturing employment, were generally weaker than expected—confirming the belief that the strong August figures were something of a fluke.

Generally, Wall Street economists saw the statistics as being consistent with a real Gross National Product (GNP) growth of around three per cent in the third quarter—a factor that helped give the bond markets a temporary fillip on Friday morning.

Against this economic backdrop Wall Street believes the Federal Open Market Committee meeting last week will have voted to maintain the current Fed monetary policy, leaving the Fed funds rate anchored in its recent 7.75 per cent to 8 per cent trading range. "Neither recent developments nor Federal Reserve activity (which included weekend matched sales last week which were viewed as primarily technical) suggest a change in monetary policy in the near term," says Dr Kaufman.

The belief that the Fed will continue to bide its time on monetary matters without substantial policy shifts was given an additional boost by the report of the August FOMC meeting released late on Friday. The report showed that the FOMC reaffirmed its basic policy stance and voted "to maintain the degree of pressure on reserve positions sought in recent weeks." However, the report also confirmed that ahead of the August meeting the Fed touched the brakes and became slightly more cautious in its provision of reserves.

In the immediate wake of the G-5 meeting the report notes that the FMOC held a telephone conference to discuss the implications of intervention in the foreign exchange markets and concluded that "the likely potential for U.S. sales of dollars and acquisitions of foreign currencies over the near term fell generally within existing committee authorisations."

Meanwhile a new round of rumours that Mr Paul Volcker, Fed chairman, is about to quit, either for Wall Street or the newly "super-charged" World Bank, have surfaced—prompting two official Fed denials last week but adding to the existing turbulence in the debt markets.

Paul Taylor

U.S. MONEY MARKET RATES (%)

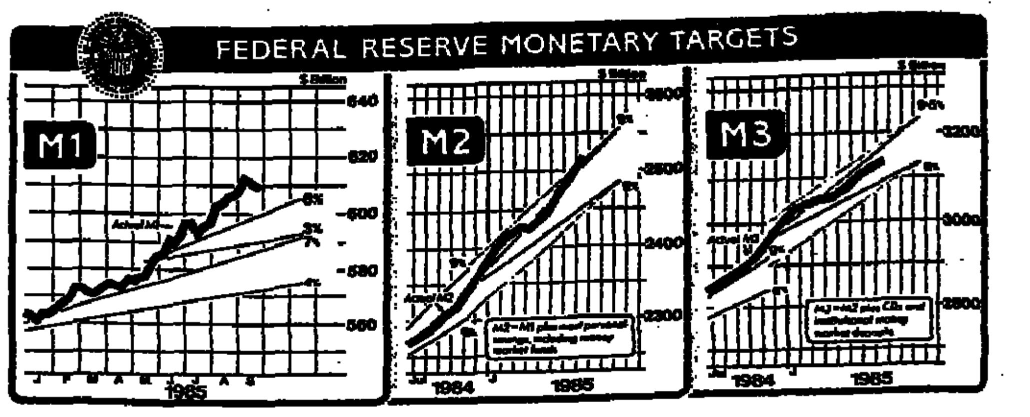
	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	8.13	7.95	7.89	10.20	7.16
Three-month Treasury bills	6.96	6.92	7.25	10.19	6.57
Six-month Treasury bills	7.25	6.93	7.43	10.31	6.81
Three-month prime CDs	7.93	7.86	10.45	11.06	7.22
30-day Commercial Paper	7.70	7.65	7.70	10.70	6.95
90-day Commercial Paper	7.70	7.65	7.78	10.65	7.00

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100¼	— ½	10.21	10.10	10.38
20-year Treasury	99⅞	— ¾	10.79	10.74	10.90
30-year Treasury	100	— ⅝	10.63	10.57	10.71
New 10-year "A" Financial	N/A	— 2	11.05	10.85	11.25
New "AA" Long utility	N/A	— 1	11.75	11.63	11.88
New "AA" Long industrial	N/A	— 1	11.63	11.50	11.65

Source: Salomon Bros (estimates).

Money Supply: In the week ended September 23 M1 fell by $400m to $600.3bn.



UK GILTS

British institutional buyers return in force

AS THE DOLLAR continued to sag under the threat, and occasionally the reality, of central bank intervention last week, British institutions returned to the gilt-edged market in force.

The Government Broker managed to sell up to £600m of stock and sterling's periodic bouts of weakness against European currencies did not prevent gains of close to a point for long-dated issues.

By Friday the exhaustion of the Treasury 3 per cent 1989, the Exchequer 10½ per cent 1997, and the Conversion 9½ per cent 2004 left the Bank of England with only two small tranches of index-linked stock on offer.

The expected announcement of a series of new tranches of conventional stocks, however, did not materialise, leaving many of the market perplexed by the authorities' current approach to funding.

One theory was that the bank decided against an issue at the last moment when, after the break-up of the Geneva oil price talks, a renewed spate of EMS rumours hit the pound.

The switch in funding tactics away from regular issues of £1bn tap stocks towards much smaller tranches of existing stocks has, in any event, made the traditional Friday afternoon announcement rather artificial.

Monday or Tuesday is just as good, particularly if the authorities want first to see whether oil prices and the pound settle down.

The Bank may also have wanted to signal that it was still fairly relaxed about the pace of funding and was not yet back in the game of selling as much stock as possible to push sterling M3 back into its target range.

Officials still insist that the market misread the funding strategy in the summer, when strong foreign buying meant that net sales to British institutions were minimal, despite the relatively buoyant level of total sales. Now they are attempting to emphasise the continuity of policy.

This week the main signposts for the market are likely to be Tuesday's money supply figures and the Conservative Party conference.

The official view appears to be that, on purely domestic considerations, a ½-point cut in base rates to 11 per cent could be justified more or less at any time.

Despite the wayward behaviour of sterling M3, monetary policy is perceived as being, as one senior official put it, "on the tight side of neutral."

The consensus in the market, however, is that barring an unexpectedly good figure for sterling M3 on Tuesday (the median forecast is for growth of about 1 per cent during September) then a cut during party conference week would smack too much of political opportunism.

It has been done before, but as Stephen Lewis of brokers Phillips and Drew puts it, such a move would not persuade the City that the Chancellor's first priority was the stability of financial markets.

Gilt-edged brokers are also eagerly awaiting Mr Lawson's Mansion House speech on October 17 for a clear exposition of the Government's current approach to monetary policy. (Though the message from Whitehall last week was that the Chancellor had been far too busy on his conference speech to turn his mind to the intricacies of the money supply.)

The external outlook also remains opaque. Presentation would argue against a cut in British interest rates until there is further evidence that the impact of the Group of Five intervention pact against the dollar will be sustained.

And though the Treasury probably welcomes sterling's downward adjustment against the D-mark, it must be concerned that the process does not go too far too fast. Whatever the rumours, it seems that the Prime Minister is still set against full British membership of the European Monetary System.

That said, a further significant rise in the pound's value against the dollar would almost certainly persuade the City to look for a small cut in interest rates and allow the authorities the luxury of following market forces.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.
† Perpetual.

Closing prices on October 4.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. OPTIONS TRADING

Exchanges fear results of deregulation

A WALL on the floor of the Philadelphia Stock Exchange divides the equities pitches from those where equity options are traded. Pretty soon, it may have to be torn down.

Put up in 1975 at the behest of the Securities and Exchange Commission, it is designed to enforce a ban on "side-by-side" trading—that is, specialists keeping a book in both an option and its underlying equity.

"Although we opposed the wall at the time, we have grown fond of it because we think that it is very necessary," says Mr Nicholas Giordano, the exchange's president.

Side-by-side trading has been barred because it has been thought to offer unfair advantages as well as the opportunity to manipulate prices. Private knowledge of a significant buy or sell order for an equity could influence the price a specialist makes to unwitting options traders.

"You do not have to be very sophisticated to understand that if you are a market-maker in both the equity and the option, you have an information advantage. It's easy to make money," says Mr Walter Auch, chairman of the Chicago Board Options Exchange.

Mr Giordano and Mr Auch are thus up in arms at a series of recent decisions by the Securities and Exchange Commission, setting the stage for a war among individual stock exchanges as well as with the National Association of Securities Dealers, which runs the so-called over-the-counter NASDAQ equity market.

The CBOE, as a market exclusively for options, and regional exchanges such as Philadelphia, stand to lose business to their New York rivals if the SEC maintains its current deregulatory approach.

The SEC has authorised a limited one-year experiment in side-by-side trading to begin on January 20. The ruling also involves the undermining of two other barriers: the division between the listed and the over-the-counter market, and a ban on the listing of an option on more than one exchange.

The NASD, whose market-makers trade the shares of over 4,000 companies, most of them smaller than the 1,500 listed on the New York Stock Exchange, has long sought the right to offer options on its stocks. In April, it got its wish, and more.

The SEC approved a pilot programme in which NASD market-makers will be able to trade options on the six most active OTC options side-by-side with the equities. But it also ruled that stock exchanges must receive the new privileges as well. Not only could the exchanges take part in the side-by-side pilot, but they could offer options on a limited number of OTC stocks for the first time almost immediately. Just as significantly, they could all offer the same options.

Against the argument that side-by-side trading can lead to manipulation, the SEC argued that there is a sufficient number of market-makers and adequate liquidity to prevent abuse. Stock exchanges, however, employ the specialist system, in which the right and obligation to make a market in each security is granted to one specialist. NASDAQ has at least two competing market-makers in each stock.

The SEC decision started a battle in which several exchanges competitively traded options on a small number of OTC stocks. The outcome supported the contention of the opponents of multiple listing, including Mr Auch and Mr Giordano, that it simply leads to the dominance of one market-place. The American Stock Exchange has quickly taken the lion's share of trading in each of the options it offered.

"Multiple trading seems to be a logical competitive thing, until you look at how it works," says Mr Auch. "To the extent that it does work, it fragments the market." Mr. Auch also argues that multiple listing undermines the exchanges' self-regulatory function, is against the interests of major securities firms which are members of all exchanges, and causes unnecessary development costs for the exchanges and their members.

The implications of the SEC's decisions are far-reaching. The CBOE is seeking approval to become a *stock exchange*. The NASD, facing the prospect that exchanges will be able to trade its stocks, wants the right to trade exchange-listed stocks. The New York Stock Exchange, in the face of NASD competition as well as the so-called "third market"—off-exchange trading of listed stocks—has moved forward its opening hour by half an hour to 9.30 am, and other exchanges have been forced to follow suit. The specialist system faces mounting criticism, though, on the CBOE, the market-maker system is also under attack.

These questions and the three underlying issues — NASDAQ versus listed competition, multiple listing and side-by-side trading — will all come under the microscope when the pilot scheme begins in January. Market-makers and specialists in the six stocks and their options—Apple Computers, Convergent Technologies, Digital Switch, Intel, Intergraph and MCI Communications — will no doubt be at pains to demonstrate the integrity of the new system. If it is a success and is subsequently broadened, the structure of the U.S. equity *market is likely* to change substantially.

Alexander Nicoll

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
CCF (a)† ◊ ‡	200	1994	8¼	4bp	100	CCF	–
Mitsubishi Estate ¶	75	1992	7	(?)	100	Nikko Secs (Eur)	–
Chicorp (c)†‡	500	2005	20	22½bp	100	Merrill Lynch	–
Den norske Creditbk †‡	300	–	–	¼	(d)	Morgan Stanley	–
Credit du Nord (e)†‡	100	1997	12	⅛	100	Credit du Nord	–
Nippon Credit Bank ‡	150	1995	10	10⅝	100	Salomon Brothers	10.625
Wells Fargo (g)†‡	150	1992	7	22½bp	100	Salomon Brothers	–
AUSTRALIAN DOLLARS							
Christiania Bank ‡	30	1988	3	13⅝	100½	Bayerische Vereinsbk	13.183
Security Pacific ‡	50	1988	3	14	100⅝	Orion Royal Bank	13.732
NEW ZEALAND DOLLARS							
Coca-Cola ‡	50	1990	5	17	100	Morgan Guaranty	17.000
D-MARKS							
Enskilt ‡	175	1995	10	6¾	100	BHF-Bank	6.750
Neste Oy ‡	150	1992	7	6½	100	Deutsche Bank	6.500
Adia Resources ¶‡	100	1995	10	4½	100	CSFB-Effectenbank	4.500
Commerzbank (h)†‡	500	1995	10	¼	100	Commerzbank	–
SWISS FRANCS							
Nishimatsu Con. **¶‡	100	1990	–	2⅞	100	Crédit Suisse	2.875
Renown Look §‡	20	1990	–	1¾	100	UBS	1.750
Nikon Radiator **¶‡	70	1990	–	2⅞	100	Crédit Suisse	2.875
Japan Highway ‡	200	1995	–	5¼	100	SBC	5.250
Gen-El Chem. **§‡	80	1991	–	1¾	100	SBC	1.750
Nippon Valqua **¶‡	40	1991	–	1¾	100	Banca d. Gottardo	1.750
Finland ‡	150	1995	–	5⅜	100	UBS	5.375
Toyo Radiator **¶	33	1990	–	(3)	100	Swiss Volksbank	–
Tohoku Elec. Power **‡	150	1998	–	5½	100¼	UBS	5.442
Prov. of Quebec ‡	200	2005	–	5½	100	SBC	5.500
Furukawa Co. **¶	80	1990	–	(3)		Crédit Suisse	–
Ishii Food Co. **§	10	1990	–	5⅝	100	Handelsbank	5.625
Nippon Tungsten **¶	10	1990	–	5⅝	100	Swiss Volksbank	5.625
McDonnell Douglas ‡	100	1995	–	5¼	100¼	Chase Man. (Suisse)	5.185
Manitoba Tel. System **‡	80	1992	–	5	99½	UBS	5.095
GTE Finance Corp. ‡	150	2000	–	(?)	100	Sodite	–
ECUs							
BNP (j)†‡	150	1995	10	–	99.95	Salomon Brothers	–
BFCE ‡	150	1993	8	8⅝	100	BNP	8.625
EIB **‡	30	1994	8	8¾	100	Banque Paribas	8.750
Cargill Inc. ‡	50	1995	10	8⅞	100	S. G. Warburg	8.875
STERLING							
Enskilt ‡	35	1992	7	11	100¼	Kleinwort Benson	10.947
Britannia Bld. Soc. (f)†‡	75	1993	8	⅛	100	Hambros Bank	–
Bank of Nova Scotia (g)†‡	100	2000	15	10bp	100.1	Samuel Montagu	–
NORWEGIAN KRONE							
World Bank ‡	250	1995	10	9½	100¼	Bergen Bank	9.460
GUILDERS							
Bk Mees & Hope ‡	200	1995	8	7	100½	Bk Mees & Hope	6.920
LIRE							
EIB ‡	180bn	1990	5	13½	100	San Paolo Bank	13.500
YEN							
Bridgestone §‡	20bn	2000	15	2¼	100	Daiwa Europe	2.250
EIB ‡	30bn	1997	12	6.2	99½	Nikko Secs.	6.261
IADB ‡	35bn	2000	13.32	6.2	99.45	Yamaichi Secs.	6.258
CNT ‡	25bn	1992	7	6¼	100⅛	Nomura Int.	6.093
CNT (k)†‡	15bn	1997	12	⅛	100.1	Daiwa Europe	–

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ◊ With bond warrants. ‖ Dual currency. (a) 4bp over 6m Libor (first coupon 4bp over 3m Libor). (b) ¼ over 6m Libor. (c) 22½bp over 1m Libid. (d) Part exchange for old issue (Oct. '84); ¼ over 3m Libor. (e) ⅛ over 3m Libor. (f) ⅛ over 3m Libor. (g) 10bp over 3m Libor. (h) ⅛ over 6m Yen Libor. (j) 3m US$ Libor, hedged into ECUs using spot and 3m forward market; Registered with U.S. S.E.C. Note: Yields are calculated on AIBD basis.

AT & T discount rules eased

BY TERRY DODSWORTH IN NEW YORK

AMERICAN Telephone & Telegraph (AT&T), the U.S. long distance telephone company, is to be allowed to offer a broader range of discount services under new proposals adopted by the Federal Communications Commission (FCC) — though strongly opposed by other long distance carriers.

Justifying the decision, which was carried by a four to one vote, the Commission said that it was designed to give consumers some of the benefits "of a fully competitive market while that market matures." AT&T said that it was preparing several plans for new discount services which will be filed with the FCC, the government regulatory body for the U.S. telephone industry.

The FCC's move marks a further step in the process of allowing AT&T to compete without any restrictions in the long distance market.

Since the Bell telephone system was broken up two years ago, splitting the long distance services from the regional networks, AT&T has been constantly lobbying against the continuing regulation of its rates. It has argued that it should be allowed to compete on an equal footing with its newer rivals, such as MCI Communications and GTE Sprint, while they in turn have lobbied for some restrictions on the larger company because of its dominant position in the market.

The Commission's new ruling allows AT&T to apply a new formula for justifying discounted services. At present its services have to reflect the full costs of operating the whole company, but under the new system it will be able to price a service on the basis of the operating costs of that business alone.

Failed Canadian banks' compensation

OTTAWA—Compensation for uninsured depositors of the failed Canadian Commercial Bank and *Northland Bank is* estimated at C$875m (U.S.$638m), Mrs Barbara McDougall, Minister of State for Finance, announced here over the weekend.

Mrs McDougall said legislation was being introduced authorising payments to depositors of the banks, which were closed by the government on September 1.

The Bill would also provide compensation for the C$6m of uninsured deposits at CCB Mortgage Investment Corp, if it is unable to solve its liquidity problems.

● Gulf Canada's Montreal refinery, scheduled to close at the end of December, will remain open until February because the company has found a potential buyer for the *facility.*

The refinery is part of Gulf Canada's assets east of Ontario, which were not sold to Petro-Canada, the government-owned energy group, after the Olympia and York Investments takeover of Gulf Canada.

Reuter

ENI to buy petrochemical assets from Montedison

BY ALAN FRIEDMAN IN MILAN

MONTEDISON, Italy's leading chemicals, health care and energy group, i negotiating to sell between L500bn and L1,000bn (US$567m) of petrochemical assets which it considers *non-strategic to* Enichimica, the chemicals subsidiary of ENI, the state energy group.

Aside from the desire to continue its industrial rationalisation programme, Montedison is seeking to reduce its group debt, currently believed to be around L4,599bn (US$2.5bn).

Montedison and Enichimica are understood to be discussing a variety of assets, including ethylene, chloride, caustic soda and chlorinated solvent plants at Porto Marghera, near Venice, and parts of the Priolo petrochemica plant, near Siracusa in Sicily.

*The last big asset transfer be*twen Montedison and ENI occurred in 1982, when ENI took most of Montedison's commodity petrochemicals plants, largely removing Montedison from Ethylene and polyethylene production. The result of that deal was to make ENI the Italian leader in those areas while Montedison became the leader in polypropylene.

The current talks are understood to be seen in a favourable light by officials at ENI who *wish to contiue restructuring* the group's chemical activities, though any eventual deal will require ministerial approval.

Montedison is expected to make a 1985 full-year consolidated net profit of around L100bn. Apart from a tiny profit in 1979, this would represent the first time the group has come out of loss for 10 years. Last year Montedison lost L83bn, which compared with a 1983 loss of L322bn and a 1982 deficit of L859bn.

● Dr Raul Gardini, managing director of Ferruzzi, the Italian agribusiness group, said at the *weekend that his company held* just under 2 per cent of Montedison and had spent around L30bn acquiring the stake. This marked the first time Sig Gardini had officially confirmed the extent of his direct involvement in Montedison, where he is a member of the board

UK COMPANY NEWS

Strata Invs. offers 15m shares for subscription

THE FULL prospectus is published this morning for the offer for subscription of 15m shares in a new investment trust, Strata Investments, at 100p per share.

The trust will be managed by Henderson Administration which has established itself an enviable reputation for performance.

Henderson currently manages six trusts. Using the Association of Investment Trust's statistics one of them, Lowland, ranked as the best performing company in terms of return on assets for the five years to August. Another, Greenfriar, ranked as fourth; Witan ranked as 12th and Electric & General came in at 21st. The other two are not ranked because one is a split level trust and the other is only three years old.

The issue has been underwritten by the prestigious firm of Cazenove.

Witan, which is the largest trust in the Henderson stable, will be taking a 20 per cent stake in Strata. Firm applications have also been received for a further 55 per cent of the issue leaving just a quarter of the 15m shares actually on offer.

The trust has been established as a "general specialist" in that it will concentrate on investing in small companies in the UK, U.S., Europe and Far East. In the UK this means that Strata will be concentrating its efforts on USM companies.

The portfolio will be roughly split as to 40 per cent UK, 30 per cent U.S. with the balance split between Europe and the Far East.

Dividends will be minimal.

Mr Richard Smith, a director of Henderson who is the investment manager responsible for the top-ranking Lowland and will direct the overall strategy of Strata, said that the trust would be looking for companies with good management, involved in specialist areas with potential for increasing market share and improving margins.

He added that the average size investment in the UK would be between £150,000 and £200,000 and over £200,000 in the U.S.

The managers have an open mind on whether to gear-up the company by borrowing in the future through they are inclined to hedge currency risks, especially against the dollar.

The ordinary shares on offer will have warrants attached to subscribe for one ordinary shares for every 10 allotted at 100p from 1987 to 1993. After November 22 the warrants will be traded separately.

Strata will be liquidated in ten years time unless shareholders vote to continue its existence.

The application list opens on Thursday and dealings are expected to start on October 16.

● comment

New investment trusts are not something to be encouraged unless they have something special to offer. Strata has that something. The Henderson teams' track record is impressive and the concept of specialising in small companies should find willing backers. At present the only real USM specialist is First Charlotte where the performance has not been sparkling but the discount to asset value is still only 11 per cent. There is no question that Strata will not be fully subscribed with threequarters of the issue tucked away and Cazenove presiding, but still the question for private investors is "should they apply on the prospectus or wait for dealings to start and hope for a discount to appear?" That assumes, of course, that the concept of the trust appeals in the first place. Cazenove will no doubt do its level best to avoid discount early on but beyond the first couple of weeks it might be hard to avoid and so there may be better buying opportunities next month. Certainly the warrants and the 10-year life are not going to have much offsetting impact on the natural tendency for a discount at this early stage. Nevertheless Strata is an attractive opportunity for anyone thinking beyond the short term. Stags, of course, can forget it.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Cannon Street Investments, Falcon Resources, Ibstock Johnsen, S. Jerome, Kalon, London and Edinburgh Trust, Molins, Moran Tea.

Finals: Close Brothers, Ferry Pickering, Leisure Investment.

FUTURE DATES

Interims—

Duport	Oct 16
Johnston Group	Oct 9
Kingsley and Forester	Oct 10
Lilley (F. J. C.)	Oct 23
Marshall's Universal	Oct 18
Portland Holdings	Oct 9
Slaters Food Products	Oct 9
Spirax-Sarco Engineering	Oct 16
Time Products	Oct 15
Toshiba Corporation	Oct 26
Tozer Kemsley and Millbourn	Oct 11
Finals—	
Canadian Overseas Packaging Industries	Oct 10
Pearce (C. H.)	Oct 10
Walker and Homer	Oct 24

Dura Mill overseas policy success

A GOOD start has been made by Dura Mill, a Lancashire textile concern, in exploiting merchandising opportunities overseas, and this is reflected in the profit for the year ended March 31 1985 which comes to £346,500, against a near breakeven £2,000 last time.

At the end of last year the company, which is controlled by Corporate Development International (Holdings), raised £228,000 net by a rights issue as a move towards developing and expanding the merchandising side of its business. At the time it said that management accounts for the six months ended September 1984 showed a loss of some £50,000 before tax.

The company has been put on its feet by a contribution from the Middle East of £461,000. This wipes out a loss of £114,000 (profit £2,000) in the UK. Turnover in the year expanded from £919,000 to £3.98m. For many years the company has just stayed in the black.

Earnings are 7.39p (0.37p) and the dividend is 4p (0.05p). Although this is a substantial increase the amount takes due account of the working capital requirements, and in recognition of this the parent has waived its right to payment.

Further progress in developing new markets for the enlarged merchandising interests has continued to be made in the first half of the current year. But losses from yarn processing are still disappointing and the directors are reviewing the future of that side of the business.

Bristol Channel write-off

Attributable losses of Bristol Channel Ship Repairers soared from £49,566 to £1.43m in the year ended March 29 1985, after charging an extraordinary item of £1.31m (£46,315) being the amount written off fixed assets as a result of certain facilities no longer utilised for shiprepairing.

Group turnover for the period increased from £1.89m to £3.45m. There was no tax (£6,924) and stated losses per 10p share rose from 0.004p to 0.15p.

The attributable deficit was after crediting exceptional income of £256,035 (£369,150)

Brockhouse

An article on September 27 on Evered Holdings referred to Brockhouse Maxwell Bus Transmissions as an Evered subsidiary. Brockhouse Maxwell was sold by Evered in September 1984 to Avon Transmission Services. The references in the article should have been to the separate Brockhouse Transmissions, which remains part of the Evered group.

F.T. Share Information

The following securities have been added to the Share Information Service:

Allebone & Sons 5½pc Conv. Cum Red Pref (Section: Drapery and Stores)

Anglo United Development Corporation (Mines—Miscellaneous)

Business Mortgages Trust (Banks, HP and Leasing)

Control Techniques (Electricals)

Lewmar (Leisure)

Polypipe (Buildings).

Thurgar Bardex recovery marked by interim return

THE CONTINUED recovery by Thurgar Bardex has been marked by its return to the interim dividend lists and the acquisition of N & P Group from Starling Investments for a maximum consideration of £1.03m.

In the 25 weeks to June 22, 1985, pre-tax profit for the Kettering-based company increased by 53 per cent from £66,000 to £101,000 on turnover up by 6 per cent to £5.55m (£5.23m).

From earnings of 0.65p (0.33p) per 10p share the directors have declared an interim payment of 0.2p. The last interim was paid in respect of the first half of 1981.

The directors of this maker and supplier of plastic products say that sales and profit continued their gradual improvement. Because of the involvement in the DIY and garden products market there tended to be a drop in demand during the summer but now the order book is improving.

Operating profit came out at £213,000 (£162,000) and the pre-tax figure was struck after interest charges of £112,000 (£96,000). The tax charge was £15,000 (£22,000).

N & P Group makes, retails and distributes replacement window frames. It has been associated with Thurgar since it developed a design based on extruded plastic, supplied by Thurgar.

The purchase is being met by the issue of shares with an initial payment of £500,000 followed by three profit-related payments; up to £130,000, following the end of 1985, and a total of £400,000 over the next two years.

Starling and its owners, Mr C. O. Nye and Mr O. C. Nye, already hold 1.3 per cent of the Thurgar equity. Following the initial payment they will hold 2.81m shares (17.7 per cent).

N & P has seen profits slip from £239,000 in the year to the end of June 1983 to £90,000 the following year because of the development costs of the new frame. That fell to £5,000 on turnover of £4.3m in the year ended June 1985 because of the disruption caused by the imposition of VAT.

The company is said, however, to be trading at a much better level than implied by the figures. Combined assets for the group at June 30 were £277,000.

Its present managing director Mr C. O. Nye will remain and also join the board of Thurgar.

Percy Bilton up slightly

Percy Bilton, property investor and developer, achieved a 3 per cent increase in pre-tax profits to £5.18m against £5.01m previously, in the six months to end-September 1985. This was achieved on turnover down from £13.94m to £13.5m, excluding inter-company transactions.

The directors are lifting the interim dividend to 4p (3.9p), payable on December 3. Total payments in 1984-85 amounted to 10.5p on taxable profits of £10.19m.

The group's property and investment activities contributed a lower £5.33m to profits, against £5.64m, while construction, including housing, added a substantially higher £1.87m (£595,000). Administrative expenses rose to £605,000 against £575,000, and interest charges jumped from £657,000 to £1.42m.

Tax fell by £95,000 to £1.68m, leaving net profits at £3.5m (£3.23m) for earnings per share ahead at 9p (8.3p). There was an extraordinary credit of £129,000 (£2.37m).

Bad weather hits Mack

Bad weather is largely blamed for the fall in pre-tax profits at M. & W. Mack, horticultural produce distributor, from £900,101 to £642,226 in the year ending April 26 1985.

Mr Donald Mack, chairman of this private unquoted company, describes the year as eventful, occasionally difficult, but generally progressive. Turnover increased by 5.5 per cent to £65.5m against £62.1m, and gross trading profit rose from £5.5m to £5.7m.

The January frosts, which ruined much of the Spanish citrus crop, were disastrous, the chairman says. Mack and its Spanish partner, E. Martinavarro, unable to guarantee the internal condition of their Chico brand citrus, withdrew from the market.

It was the first time for 29 years they had been forced into such a position, he says, and "undoubtedly several million pounds in sales and related profitability were lost."

In the current year oversupply of products such as home-grown potatoes, and the continuing effect of poor weather in the Mediterranean have adversely affected trading in the first quarter.

SHARE STAKES

Changes in company share stakes announced over the past week include:

British Syphon Industries—In order to repay personal borrowings, Mr A. B. Morrall and Mr C. J. Shaw, both directors, each disposed of 250,000 ordinary shares and these have been placed with institutions. Mr Morrall and Mr Shaw retain 756,595 and 756,500 ordinary respectively (4.05 per cent each).

Ratners—Mr T. Jordan, director, disposed of 75,000 ordinary shares reducing his holding to 2,331,059 (7.1 per cent).

Shell Transport and Trading—Sir Peter Baxendell, director, sold 17,000 shares at 700p.

Asprey — George Morgan Magan, director, sold 15,000 shares.

International Leisure — Mr Stephen Matthews, director, sold 100,000 shares reducing his holding to 2,554,587.

Dencora makes progress in interim period

Progress has been made by the USM-trade Dencora property investment and development group in the first half of 1985 and the directors are looking to the future with confidence.

In the interim period profit before tax has risen by £60,000 to £672,000, despite higher expenses and interest charges doubled to £1.17m. Turnover advanced from £4.78m to £5.93m; from this an operating profit of £1.42m (£1.02m) was earned and was backed up by other operating income of £1.13m (£810,000).

The directors say the property investment companies have continued their expansion with new lettings adding to the rent roll. A shop and office complex in Felixstowe has been purchased and when refurbished and fully let should field £65,000 per annum.

Housing developments and sheltered housing schemes are selling satisfactorily and further sites have been acquired for the expansion of the latter.

The company is proposing to expand its house building side by setting up a subsidiary in the Newmarket/Cambridge area, and has agreed to purchase a builders' office and yard which should become operational during the latter part of 1985.

It has also agreed terms for the purchase of two small housing sites in the area.

FINANCIAL TIMES STOCK INDICES

	Oct. 4	Oct. 3	Oct. 2	Oct. 1	Sept. 30	Sept. 27	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Government Secs	84.31	84.08	84.06	83.96	83.91	83.96	89.85	78.02	127.4	49.18
Fixed Interest	89.85	89.75	89.73	89.62	89.49	89.16	94.51	83.17	150.4	50.53
Ordinary	1016.5	1010.9	1012.6	1004.8	999.4	999.6	1024.5	911.0	1024.5	49.4
Gold Mines	287.2	281.7	291.4	290.8	297.7	310.6	536.9	280.1	734.7	43.5
FT-Act All-Share	637.94	634.02	633.67	629.29	626.24	622.37	646.62	581.88	646.62	61.92
FT-SE100	1315.0	1305.4	1308.4	1296.0	1290.0	1290.7	1340.8	1206.1	1348.4	986.9

COMPANY NEWS IN BRIEF

WILLIAM BOULTON Group has made more disposals as part of its rationalisation programme. It has sold Whitfield Wylie, which supplies equipment and services to the shoe-repairing industry, to Winemanor Holdings for £562,500 in cash. Whitfield has, in addition, undertaken to repay £563,988 for approximately half of the total inter-group indebtedness outstanding at completion. Winemanor has also agreed to purchase in a separate contract the property presently occupied by Whitfield for at least £236,500. Boulton has also sold Hymid Gradmore, which is engaged in hydraulic equipment and also integrated systems for railway rolling stock, to Winemanor for £15,000 cash. The transactions will involve an extraordinary writedown in group net worth of about £570,000.

ENTERPRISE OIL'S offer for Saxon Oil had been accepted in respect of 75.9 per cent of the capital by October 3, and Enterprise now owns a total of 98.3 per cent. The share and loan note alternative have closed, but the cash offer remains open.

BET, the international services company, has completed the acquisition of Belfast Laundry, a privately-owned linen hire company with assets of around £0.4m. The consideration is 167,947 BET deferred ordinary shares worth about £0.5m.

GROFUND INTERNATIONAL results for half year ended August 28 1985 show gross revenue US$739,000 ($1.46m) including interest $97,000 ($967,000). Net revenue $328,000 ($634,000) after no transfer to capital redemption (to $395,000). Net asset value per participating share $1.34859 ($1.18372).

HAWLEY GROUP has declared its offer for Kean and Scott unconditional to acceptances. Hawley can lay claim to 91 per cent of the issued share capital.

STEWART NAIRN GROUP directors estimate that pre-tax profits for the year to June 30 1985 were not less than £900,000 (£786,000 loss) and profits after tax and minorities at least £450,000 (£529,000 loss). These figures assume that the proposed acquisition of Arbiter Investments and the disposal of the interest in the Manhattan condominium project take place.

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price p	+ or −	Net Div.	Times Covered	Gross Yield	P/E Ratio
95	F.P.	—	103	98	AMS Inds. 5p	102		b01.25	5.0	1.7	16.6
‡	F.P.	9/10	7	6	Bardsey Prfd. Ord.	7		[illegible]			
155	100	1/11	148	117	Britoil 10p	126	+3	11.0	3.0	8.7	6.1
90	F.P.	—	105	93	♦Colorgen Inc. $0.01	103					
125	F.P.	—	135	120	♦Counter Products 5p	130		bg1.76	2.1	1.8	35.2
70	F.P.	—	76	73	♦Electronic Data 5p	75		bg1.6	4.3	3.1	11.5
‡	F.P.	28/10	123	93	Greenwich Resources	93					
§94	F.P.	30/10	99	79	♦Infrared $0.10	87					
§20	F.P.	27/9	39	35	♦Israel (Jack L.) 4p	37					
§62	F.P.	8/11	55	50	♦Just Rubber 10p	53					
§70	F.P.	8/11	57	50	♦Kewill Systems 5p	57					
100	50	13/11	47	45	Nat. Home Loans 70p	47	+2				
§180	F.P.	25/10	184	175	♦Quester 10p	175		b04.0	2.1	3.2	19.7
§330	F.P.	—	383	343	St. Ive's 10p	383	+35	bg6.0	3.1	2.2	19.8
‡	F.P.	—	17	15	Vantage Secs.	15					

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price £	+ or −
97.506	£30	17/1	31½	29½	Australia 9¼% Ln. 2012	31⅛	+¼
§91.444	£30	27/1	29½	27⅞	Bank of Greece 10¾% Ln. 2010	27⅞	+⅛
§96.454	£25	3/12	25¼	25½	Brixton Est. 10¾% 1st Mort. Deb. 2015	27½	+¼
§96.332	£40	27/12	41	40½	Ext. & Gen. Inv. 11¼% 1st Mort. Deb. 2015	40½	+⅛
§97.617	£25	31/1	27½	26¼	Evans of Leeds 11% 1st Mort. Deb. 2015	27⅛	+⅛
88.466	£20	28/1	22	20¾	Int. Bk. for Rec. & Dev. 9½% Ln. 2015	22	+¼
§100	F.P.	—	54½	54	♦Memory Comp. 7.5% Cnv. R.Pf. 1994	54	
100	£50	—	47½	45	Nat. Home Loans 5% Cnv. Uns. Ln. 2000	46	
—	F.P.	—	100¼	99⅞	Nationwide 11¼% Bds. 15/9/86	100¼	

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price p	+ or −
DM190	Nil	—	90pm	55pm	BASF A.G. DM 50	60pm	
48	Nil	22/11	17pm	14pm	Burns-Anderson 10p	14pm	−2
85	Nil	11/11	33pm	30pm	City Site Estates	33pm	
155	Nil	6/11	32pm	15pm	DRG	29pm	
210	F.P.	23/11	260	248	Emess Lighting	260	+2
11	Nil	11/11	4pm	1pm	Greenfield Stocks 10p	1pm	
5	Nil	30/10	8pm	5pm	Howard & Wyndham 5p	6pm	
10	Nil	18/11	4pm	4pm	Humberside Elect. 20p	4pm	

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. p Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. F Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ‖‖ Allotment letters or fully paid. ||| Introduction. ⊕ Unlisted Securities Market. ‡ Placing price. ‡‡ Dealt in under Rule 535 (3). ♦ Dealt in under Rule 535 (4) (a).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
Aitken Hume	Oct 30	Interim 2.25	*Higgs & Hill	Oct 8	Interim 4.5
Associated Fish Foods	Nov 5	Interim 1.7	*Ibstock Johnsen	Oct 7	Interim 2.5
BCA	Oct 30	Final 1.8	*Inchcape	Sept 30	Interim 7.15
*Bejam	Oct 16	Final 3	London and Northern	Oct 22	Interim 1.85
Brit and Commwlth Shipping	Nov 8	Interim 1.8	Marks and Spencer	Oct 23	Interim 1.08
*British Home Stores	Oct 18	Interim 1.75	*Peachey Prop	Oct 15	Final 4.5
Electrocomponents	Oct 30	Interim 1.6	*Reyback	Oct 10	Interim nil
Flight Refuelling	Nov 2	Interim 1.1	Rank Ind	Oct 30	Interim 6.75
Garrard and National	Oct 22	Interim 3.0	Sainsbury (J.)	Nov 8	Interim 1.4
Gill & Duffus	Oct 24	Interim 4.0	Samuel Prps	Oct 23	Final 4.0
*Glaxo	Oct 14	Final 9.0	*Sears	Oct 8	Interim 0.8
*Hammerson Prop	Oct 14	Interim 2.0	*Scot Metropolitan Property	Oct 18	Final 2.15
*Harrisons and Crosfield	Oct 15	Interim 15	*Unigate	Nov 27	Interim 3.0
Hawker Siddeley	Oct 17	Interim 4.1	Wolseley-Hughes	Nov 6	Final 12.15
Henderson	Oct 30	Interim 2.25			
Hepworth (J.)	Oct 30	Final 5.5			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

A copy of this document, which contains listing particulars with regard to Strata Investments plc ("the Company") in accordance with The Stock Exchange (Listing) Regulations 1984, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with those Regulations. Application has been made to the Council of The Stock Exchange for the Ordinary Shares of 25p each of the Company issued and now being issued and the warrants attached thereto ("the Warrants") to be admitted to the Official List.

The directors of the Company ("the Directors"), whose names appear in paragraph 5(a) of Appendix II, are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

STRATA INVESTMENTS plc

STRATA INVESTMENTS plc

(Incorporated in England and Wales under the Companies Act 1985. Registered number 1940906)

Offer for Subscription

of

15,000,000 Ordinary Shares of 25p each
(with Warrants attached) at 100p per share payable in full on application

Underwritten by

Cazenove & Co.

The Application List for the Ordinary Shares (with Warrants attached) now offered for subscription will open at 10a.m. on 10th October, 1985 and may be closed at any time thereafter. The procedure for application and the Application Form are set out at the end of this document.

Strata Investments plc

Directors

Michael Edward Ranulph Allsopp (Chairman) Stephen Rodney Burley
Godfrey John Chandler Henry Merton Henderson Richard Walker Smith

Registered Office

26 Finsbury Square, London EC2A 1DA.

Investment Managers and Secretaries

Henderson Administration Limited, 26 Finsbury Square, London EC2A 1DA.

Auditors and Reporting Accountants

Deloitte Haskins & Sells, P.O. Box 207, 128 Queen Victoria Street, London EC4P 4JX.

Receiving Bankers

The Royal Bank of Scotland plc, New Issues Department, P.O. Box 425, 67 Lombard Street, London EC3P 3DL.

Registrars and Transfer Office

The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 27, 34 Fettes Row, Edinburgh EH3 6UT.

Bankers

The Royal Bank of Scotland plc, 67 Lombard Street, London EC3P 3DL.

Solicitors to the Company and to the Offer

Slaughter and May, 35 Basinghall Street, London EC2V 5DB.

Stockbrokers

Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN and The Stock Exchange.

Introduction

The Company has been established as an investment company whose principal objective will be to achieve capital growth in the long term through investment in the securities of small companies world-wide. The Company will not restrict itself to investment in pre-determined sectors or geographical areas and will be managed so as to qualify as an investment trust for tax purposes.

Henderson Administration Limited has been appointed to act as the Company's investment manager, within the guidelines laid down by the Directors.

Investment background

The Directors believe that opportunities for successful portfolio investment in small companies have increased in many countries during recent years. A number of factors have contributed to this. Developments in technology have created new industries, in the growth of which many small companies have successfully participated. A number of governments have recognised that small companies can make a significant contribution to economic growth and employment and have therefore adopted measures to encourage their development. Changes in policy, sometimes dictated by economic circumstances, have led to many large companies restructuring their operations and disposing of activities which are not in the mainstream of their business. Such restructuring has created opportunities for management buy-outs and, in many cases, has led to the development of small companies dedicated to just one or two areas of business where the management is closely associated with their success.

An important factor in the establishment and growth of many small companies has been the emergence of new sources of finance. In the United States and the United Kingdom there has been a significant increase in the number of venture and development capital organisations prepared to finance small companies. Of particular interest to portfolio investors has been the establishment, in most of the major financial centres of the world, of second markets in which dealings take place in companies' securities. The expansion of these markets has been principally due to their ability to meet the demands of small companies for a regulated market in their shares with less stringent requirements for admission than those prescribed for official listings or by principal stock exchanges. Examples of these second markets are:

— In the United Kingdom, the Unlisted Securities Market which, since its establishment in 1980, has admitted more than 300 companies.
— In the United States, the over the counter market and, in particular, the NASDAQ system, through which the securities of more than 4,000 companies are dealt.
— In Japan, the Second Sections which exist on some of the Japanese stock exchanges and on which the shares of more than 600 companies are traded.
— In Continental Europe, the French Second Marché which has admitted for trading more than 100 companies, together with the second markets which have also been established in Holland, Sweden and Denmark.

By comparison with large companies, investment in small companies can offer greater potential for capital appreciation, although at some increased risk. Small companies are frequently at an earlier and less predictable stage of development than large companies and their appraisal is inevitably more time-consuming both initially and on a continuing basis. Marketability of their securities is often limited.

The Directors believe that the Company offers investors seeking exposure to small company investment the advantages of an internationally diversified portfolio which will be subject to regular monitoring and active management.

Investment policy

The principal investment objective of the Company will be long-term growth in capital. The Company's policy will be to invest in small companies with above-average growth prospects. Particular emphasis will be placed upon investment in the securities of companies whose shares are dealt in on second markets. The typical market capitalisation of companies in which investments will be made may differ on a geographical basis.

The Company's portfolio will not be invested according to a pre-determined geographical distribution. It is however expected that approximately 40 per cent. of the Company's assets will initially be invested in the securities of United Kingdom companies and 30 per cent. in the securities of United States companies, with the balance divided between Far Eastern and Continental European securities. It is not envisaged that any particular sector specialisation will be reflected in the portfolio.

In selecting investments the Directors will bear in mind the following principal criteria, most of which they would expect to be present in any company in which an investment is to be made:

— capable and professional management;
— products or services in specialist areas of business;
— a growing market for its products or services;
— potential for increased market share and improving margins;
— lack of dependence on a small customer base; and
— suitable incentives for management to succeed.

SHARE CAPITAL

Authorised		Issued and to be issued fully paid
	in Ordinary Shares of 25p each	
£4,180,000		£3,800,000

Successful applicants (or their renouncees) will receive Warrants conferring the right, on the terms of the particulars of the Warrants set out in Appendix I, to subscribe for one Ordinary Share at 100p per share on 31st January in any year from 1987 to 1993 inclusive, for every ten Ordinary Shares allotted to them.

The Directors are aware of intended applications for 11,200,000 Ordinary Shares (with Warrants attached). Such applications will be accepted in full.

Whilst the emphasis of the portfolio will be on small companies, investments may also be made, subject to the above criteria, in any company where the prospects for capital growth appear to be particularly attractive. The Company may also invest in securities in which no recognised market exists but such securities will form only a small proportion of the Company's portfolio.

The Company will be prepared to use borrowed funds on a short or medium-term basis when this is considered to be advantageous. In managing the Company's currency exposure, hedging operations may be undertaken.

The Directors will not normally expect to be represented on the boards of companies in which investments are made and will not take legal or management control of underlying investments.

The Directors intend that the Company will so conduct its affairs as to satisfy the conditions required for it to be approved as an investment trust in accordance with section 359 of the Income and Corporation Taxes Act 1970 (as amended). Accordingly, not more than 15 per cent. of the assets of the Company (before deducting borrowed money) will be lent to or invested in the securities of any one company (other than an investment trust which has been approved by the Board of Inland Revenue or which would qualify for such approval but for the fact that it is not listed).

The Directors intend that the investment policy set out above will be adhered to for the period of at least three years following admission of the Ordinary Shares to the Official List.

Directors of the Company

The following are the Directors of the Company all of whom are non-executive:–

M. E. R. Allsopp (Chairman), who is aged 54, is non-executive Chairman of Allied Dunbar & Company plc and of Baronsmead Venture Capital plc. He is also a past Chairman of the London Discount Market Association.

S. R. Burley, who is aged 38, is the investment manager and a director of RTZ Pension Investments Limited.

G.J. Chandler, who is aged 60, is a director of a number of investment trusts and financial companies and is Deputy Chairman of W.H. Smith & Son (Holdings) PLC. Until April 1985, he was a partner of Cazenove & Co.

H.M. Henderson, who is aged 33, is a partner of Cazenove & Co. and is also a director of Updown Investment Co. PLC.

R.W. Smith, who is aged 34, is a director of Henderson Administration Limited and is the investment manager responsible for the management of Lowland Investment Company plc and English National Investment Company plc. He is also responsible for the overall management of the United Kingdom unit trusts within the Henderson Group.

Investment management

The Directors will be responsible for the determination of the Company's investment policy and the overall supervision of the Company's investments.

The Company has appointed Henderson Administration Limited ("Henderson Administration") as investment manager to manage the Company's portfolio on a day-to-day basis and to implement investment policy, including the provision of day-to-day investment advice.

Henderson Administration is a wholly-owned subsidiary of Henderson Administration Group plc, the shares of which are listed on The Stock Exchange and which is regarded as one of the leading independent investment management houses in the City of London. Henderson Administration Group plc and its subsidiaries ("the Henderson Group") manage investment funds with a value at 31st August, 1985 of approximately £2,750 million. Included in the total of funds under management are six investment trusts, 34 authorised unit trusts, 15 offshore funds, 93 pension funds, together with portfolios of private individuals and other funds. A substantial proportion of the assets managed by the Henderson Group is invested overseas.

The Association of Investment Trust Companies publishes information, based on the asset value of member trusts, which demonstrates comparative investment management performance in terms of the total return on net assets. On the basis of the most recent such information, which is calculated over a five-year period to 31st August, 1985, for a total of 111 investment trusts, the gross assets at 31st August, 1985 and the ranking, where appropriate, of the six investment trusts managed by Henderson Administration is as follows:

	Gross assets at 31st August, 1985	Ranking in terms of total return on net assets
Witan Investment Company plc	£378 million	12th
Electric and General Investment Company plc	£63 million	21st
Lowland Investment Company plc	£26 million	1st
Greenfriar Investment Company plc	£23 million	4th
English National Investment Company plc	£5 million	Note (i)
The British Kidney Patient Association Investment Trust plc	£1 million	Note (ii)

Notes:
(i) English National Investment Company plc is a split capital investment trust and this measure of investment performance is therefore inappropriate.
(ii) The British Kidney Patient Association Investment Trust plc was formed in November, 1982.

Duration of the Company

Shareholders will have the opportunity from time to time to decide if they wish the Company to continue in existence. The Articles of Association of the Company provide that unless an Ordinary Resolution is passed at the Annual General Meeting of the Company in 1996 approving the continuation of the Company, the Directors shall convene an Extraordinary General Meeting of the Company within two months of that Annual General Meeting at which an Extraordinary Resolution shall be proposed to shareholders to wind up the Company. The Articles of Association of the Company provide that shareholders voting shall be bound to vote in favour of such an Extraordinary Resolution. In the event of the Company not being wound up, this procedure will be repeated at five-yearly intervals thereafter.

The Articles of Association of the Company contain provisions whereby the liquidator appointed in any winding up could be authorised by Special Resolution *inter alia* to vest assets in trustees of unit trusts pursuant to a scheme whereby units would be issued in exchange for the assets transferred.

Dividend policy and accounts

The income of the Company will be derived mainly from securities although interest may be earned on funds pending their investment. In the light of the investment policy of long-term capital appreciation and the current level of dividend yields prevailing in the type of securities in which the Company proposes to invest, it is anticipated that the Company will pay only a minimal annual dividend. This dividend is expected to be paid in January of each year, commencing in 1987.

The Directors intend to retain not more than 15 per cent. of the Company's income derived from shares and securities in any accounting period so as to enable the Company to qualify for approval as an investment trust for United Kingdom tax purposes. Dividends will only be paid out of income received, shares of profits of associated companies being unavailable for *this purpose unless and until distributed to the Company.*

The distribution as dividends of surpluses arising from the realisation of investments is prohibited by the Articles of Association of the Company.

Annual accounts for the Company will be made up to 31st October in each year (other than 1985) and the Company's first accounts will be made up for the period from its incorporation to 31st October, 1986.

Details of the Offer

Shares
The Company is offering for subscription 15,000,000 Ordinary Shares of 25p each (with Warrants attached) at 100p per share, payable in full on application, in order to raise the sum of £15,000,000 (before expenses and commissions). The Ordinary Shares now being issued will rank in full for all dividends and other distributions declared, made or paid on the ordinary share capital of the Company. It is expected that Letters of Allotment will be posted to successful applicants not later than 15th October, 1985 and that, subject to the admission of the Ordinary Shares to the Official List, dealings will commence on 16th October, 1985.

Warrants
The persons to whom the Ordinary Shares are allotted (or their renouncees) will receive Warrants conferring the right to subscribe for one Ordinary Share on 31st January in any of the years 1987 to 1993 inclusive at 100p per Ordinary Share (subject to the adjustments described in Appendix I) for every ten Ordinary Shares allotted. This will result in there being outstanding subscription rights under the Warrants for 1,520,000 Ordinary Shares. Until 22nd November, 1985 dealings will be in multiples of ten Ordinary Shares only with Warrants attached. Thereafter, Ordinary Shares and Warrants will be dealt in separately. Particulars of the Warrants are set out in Appendix I.

Substantial Interest

Following the Offer for Subscription, Witan Investment Company plc ("Witan") will hold 3,000,000 Ordinary Shares with Warrants to subscribe for a further 300,000 Ordinary Shares.

Taxation

General Considerations
It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust under section 359 of the Income and Corporation Taxes Act 1970 (as amended). If such approval is granted, the Company will not be liable to United Kingdom taxation on its capital gains, although holders of Ordinary Shares or Warrants may be liable to taxation on capital gains arising on the disposal of their Ordinary Shares and/or Warrants.

The Company will be liable to United Kingdom corporation tax on its income. Income arising outside the United Kingdom will be subject to withholding taxes at varying rates but double taxation relief will generally be available.

The Directors consider that the Company will not be a close company immediately following the Offer for Subscription.

Taxation Aspects of Warrants
The Directors have been advised that for the purposes of taxation of capital gains:–

(a) the cost of subscribing for Ordinary Shares (with Warrants attached) will be apportioned between the Ordinary Shares and the Warrants on the basis of their respective values at the date of allotment of the Ordinary Shares. The relationship between their values is expected to be close to that between the Ordinary Shares and the Warrants on the date when they are first dealt in separately;

(b) under the provisions of the Capital Gains Tax Act 1979 the Warrants will not constitute "wasting assets" and on their disposal (a term which includes abandonment) the full cost of the Warrants, calculated as above, will be allowed in computing any gain or loss; and

(c) *the exercise by a holder of Warrants of his right to subscribe for Ordinary Shares* will not be treated as a disposal of the Warrants. For the purposes of computing any gain or loss on a subsequent disposal of such Ordinary Shares, the original cost of the Warrants will be added to the subscription price payable on exercise of the subscription rights.

Accountants' report

The following is the text of a report received from Deloitte Haskins & Sells, Chartered Accountants, the auditors to the Company:–

"The Directors,
Strata Investments plc,
26 Finsbury Square,
London EC2A 1DA.

128 Queen Victoria Street,
London EC4P 4JX.
3rd October, 1985

Gentlemen,

We report that Strata Investments plc, formerly Trushelfco (NO. 840) Limited was incorporated on 21st August, 1985 and that since that date (with the exception of the preparation of a balance sheet as at 17th September to enable Trushelfco (NO. 840) Limited to register as a public limited company) no accounts have been made up, no dividends have been declared or paid and it has not commenced business.

Yours faithfully,

Deloitte Haskins & Sells
Chartered Accountants."

Appendix I

Particulars of the Warrants to subscribe for 1,520,000 Ordinary Shares of 25p each in the Company ("the Warrants")

The terms and conditions attaching to the Warrants will be as follows:–

1 Subscription Rights

(a) A registered holder for the time being ("a holder") of a Warrant shall have rights ("subscription rights") to subscribe for Ordinary Shares of 25p each in the Company ("Ordinary Shares") in cash, on each "subscription date", being 31st January in any of the years 1987 to 1993 inclusive (or, if later, the date in any such year 30 days after the date on which copies of the audited accounts of the Company for its then immediately preceding financial year are despatched to Ordinary Shareholders), for all or any of the number of Ordinary Shares of which he is the registered holder of the right to subscribe at the price of 100p per Ordinary Share ("the subscription price"), payable in full on subscription provided that if the Company shall change its financial year end from 31st October, there shall be substituted for the said 31st January the date falling three months after the new financial year end. The number and/or nominal value of Ordinary Shares to be subscribed and the subscription price will be subject to adjustment as provided in paragraph 2 below.

(b) In order to exercise the subscription rights in whole or in part the holder of a Warrant must lodge it at the office of the registrars for the time being of the Company on or within 28 days prior to the relevant subscription date, having completed the notice of subscription thereon, accompanied by a remittance for the subscription price of the Ordinary Shares in respect of which the subscription rights are exercised. Once lodged, a notice of subscription shall be irrevocable save with the consent of the Board of Directors of the Company ("the Directors"). Compliance must also be made with any statutory requirements for the time being applicable.

(c) Not earlier than six weeks nor later than four weeks before each subscription date the Company shall give notice to the holders of the outstanding Warrants reminding them of their subscription rights.

(d) Ordinary Shares issued pursuant to the exercise of subscription rights will be allotted not later than 14 days after and with effect from the relevant subscription date and certificates in respect of such Ordinary Shares will be despatched (at the risk of the person entitled thereto) not later than 28 days after the relevant subscription date to the person in whose name the Warrant is registered at the date of such exercise or to such other person as may be named in the form of nomination available for the purpose from the registrars for the time being of the Company. In the event of a partial exercise of the subscription rights comprised in a Warrant, the Company shall at the same time issue a fresh Warrant in the name of the registered holder for any balance of his subscription rights remaining exercisable.

(e) Ordinary Shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, made or paid in respect of any financial year of the Company prior to the financial year current at the relevant subscription date but subject thereto will rank in full for all dividends and (save insofar as an adjustment has been made in respect thereof following a capitalisation under paragraph 2(a) or under paragraph 2(b) below) other distributions in respect of the then current financial year and *pari passu* in all other respects with the Ordinary Shares in issue at that date provided that on any allotment falling to be made pursuant to paragraphs 3(f) or 3(g) below the Ordinary Shares so to be allotted shall not rank for any dividend or other distribution declared, made or paid prior to allotment in respect of the then current financial year.

(f) It is the intention of the Company to apply to the Council of The Stock Exchange for the Ordinary Shares allotted pursuant to any exercise of subscription rights to be admitted to the Official List and to use all reasonable endeavours to obtain the grant of such listing not later than 14 days after the relevant subscription date.

(g) If immediately after any subscription date and after giving effect to the subscription rights exercised on that date subscription rights under the Warrants shall have been exercised in respect of 75 per cent. or more of the Ordinary Shares to which such rights relate the Company shall be entitled on giving not less than 14 days' notice in writing to the holders of the Warrants then outstanding to appoint a trustee who, provided that in his opinion the proceeds of sale after deduction of all costs and expenses incurred by him will exceed the costs of subscription, shall within the period of 14 days following the giving of such notice exercise such subscription rights as have not been exercised on the terms on which the same could have been exercised on the preceding subscription date and sell in the market the Ordinary Shares acquired on such subscription. The trustee shall distribute *pro rata* the proceeds less such subscription costs and such other costs and expenses to the persons entitled thereto as soon as practicable after such sale, provided that entitlements of under £2 shall be retained for the benefit of the Company.

(h) Within seven days following the final subscription date the Company will appoint a trustee who, provided that in his opinion the net proceeds of sale after deduction of all costs and expenses incurred by him will exceed the costs of subscription, shall, within 14 days following the final subscription date, exercise such subscription rights as have not been exercised on the terms on which the same could have been exercised on the final subscription date and sell in the market the Ordinary Shares acquired on such subscription. The trustee shall distribute *pro rata* the proceeds less such subscription costs and such other costs and expenses to the persons entitled thereto within two calendar months of the final subscription date, provided that entitlements of under £2 shall be retained for the benefit of the Company.

(d) The Company shall not (except with the sanction of an extraordinary resolution of the holders of the Warrants) reduce its share capital or any uncalled or unpaid liability in respect of any of its share capital or (except as authorised by sections 130 to 134 (inclusive) or 170 of the Companies Act 1985) any share premium account or capital redemption reserve.

(e) The Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable.

(f) If at any time an offer or invitation is made by the Company to the holders of the Ordinary Shares for the purchase by the Company of any of its Ordinary Shares, the Company shall simultaneously give notice thereof to the holders of the Warrants and each such holder shall be entitled, at any time whilst such offer or invitation is open for acceptance, to exercise his subscription rights on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above).

(g) If at any time an offer is made to all Ordinary Shareholders (or all such Ordinary Shareholders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such persons or companies as aforesaid, the Company shall give notice to the holders of the Warrants of such vesting within 14 days of its becoming so aware, and each such holder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his subscription rights on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above): the publication of a scheme of arrangement under the Companies Act 1985 providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this sub-paragraph (g).

(h) If an order is made or any effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by an extraordinary resolution of the holders of the Warrants), each holder of a Warrant will (if, in such winding up and on the basis that all Warrants then unexercised had been exercised in full and the subscription moneys therefor had been received in full by the Company, there would be a surplus available for distribution amongst the holders of the Ordinary Shares which, on such basis, would exceed in respect of each Ordinary Share a sum equal to the subscription price) be treated as if immediately before the date of such order or resolution his subscription rights had been exercisable and had been exercised in full, on the terms on which the same could have been exercised on the last preceding subscription date (subject to any adjustment pursuant to paragraph 2 above), and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he exercised his subscription rights in full and become the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per Ordinary Share equal to the subscription price; subject to the foregoing all subscription rights shall lapse on liquidation of the Company.

(i) The Company shall not change its financial year end from 31st October without giving to the holders of the Warrants not less than 2 months' notice thereof and of the new date to be substituted for 31st October in paragraph 1(a) above.

(j) The Company shall not grant (or agree to grant) any option in respect of or create any rights of subscription for any Ordinary Shares of the Company the nominal amount of which, together with the aggregate nominal amount of any Ordinary Shares over which options or rights of subscription shall be subsisting at the date of such grant or creation, would exceed in the aggregate, leaving out of account the subscription rights conferred by the Warrants, 10 per cent. of the nominal amount of the Ordinary Shares then in issue, nor (except with the sanction of an extraordinary resolution of the holders of the Warrants) will the Company grant (or agree to grant) any option in respect of or create any rights of subscription for, or issue any loan capital carrying rights of conversion into, Ordinary Shares if the price at which any such option or right is exercisable is lower than the subscription price for the time being.

Provided that nothing herein shall (i) prevent the Company purchasing any of its Ordinary Shares for the time being in issue on such terms as it may consider expedient or (ii) require the sanction of an extraordinary resolution of the holders of the Warrants for any such purchase.

4 Modification of Rights

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the holders of the Warrants. All the provisions of the Articles of Association for the time being of the Company as to general meetings shall *mutatis mutandis* apply as though the Warrants were a class of shares forming part of the capital of the Company but so that (i) the necessary quorum shall be the holders (present in person or by proxy) entitled to acquire one-third in nominal amount of the Ordinary Shares attributable to such outstanding Warrants, (ii) every holder of a Warrant present in person or by proxy at any such meeting shall be entitled on a poll to one vote for every Ordinary Share for which he is entitled to subscribe, (iii) any holder of a Warrant present in person or by proxy may demand or join in demanding a poll, and (iv) at any adjourned meeting those holders of Warrants present in person or by proxy shall be a quorum (whatever the number of Warrants held or represented by them).

5 Transfer

Each Warrant will be registered and will be transferable in whole or in part by instrument of transfer in any usual or common form, or in any other form which may be approved by the Directors. No transfer of a right to subscribe for a fraction of an Ordinary Share of the Company may be effected.

6 General

The Company will concurrently with the issue of the same to its Ordinary Shareholders send to each registered holder of a Warrant (or in the case of joint holders to the first-named) a copy of each published annual report and accounts of the Company, together with all documents required by law to be annexed thereto, and copies of all other documents issued by the Company to Ordinary Shareholders.

For the purposes of these Particulars, "extraordinary resolution of the holders of the Warrants" means a resolution proposed at a meeting of the holders of the Warrants duly convened and held and passed by a majority consisting of not less than three-fourths of the votes cast whether on a show of hands or on a poll.

Appendix II

General Information

1 History and Share Capital

(a) The Company was incorporated in England and Wales as a private limited company under the Companies Act 1985 ("the Act") on 21st August, 1985 (registered number 1940906) with an authorised share capital of £100 divided into 100 Ordinary Shares of £1 each of which two were issued to the subscribers to the Memorandum of Association.

(b) On 16th September, 1985 resolutions of the Company were passed:–

(i) whereby each Ordinary Share of £1 in the Company, whether issued or unissued, was sub-divided into four Ordinary Shares of 25p each and the authorised share capital of the Company was increased to £100,000 by the creation of a further 399,600 Ordinary Shares of 25p each;

(ii) to the effect that the Company should be converted into a public limited company; and

(iii) whereby the Company amended its Memorandum of Association and adopted new Articles of Association (the Articles of Association were subsequently amended on 2nd October, 1985).

(c) On 16th September, 1985, following the passing of the resolutions referred to in (b) above, the subscribers to the Memorandum of Association transferred seven Ordinary Shares to Witan and one to Witan and to a third person as nominee for Witan jointly (all of which have been paid up as to 100p per share by Witan) and Witan subscribed for a further 199,992 Ordinary Shares of 25p each at 100p per share. Such Ordinary Shares were allotted to Witan against an irrevocable undertaking by Witan which has undertaken to pay 100p for each such share not later than 10th October, 1985. Under such arrangements Witan is entitled to Warrants to subscribe for 20,000 Ordinary Shares of 25p each on terms identical to those set out in Appendix I.

(d) The Company was incorporated with the name Trushelfco (NO. 840) Limited. On 1st October, 1985 the Company was re-registered as a public limited company and the name of the Company was changed to Strata Investments plc.

(e) On 2nd October, 1985 a resolution of the Company was passed further increasing the authorised share capital to £4,180,000 by the creation of a further 16,320,000 Ordinary Shares of 25p each.

(f) By resolution of the Company passed on 2nd October, 1985 the Directors were, pursuant to section 95 of the Act, given authority and empowered, in accordance with section 80 of the Act as if section 89(1) thereof did not apply, to allot and to make offers or agreements to allot relevant securities up to the amount of the increased authorised share capital (both such authorities expiring at the conclusion of the first annual general meeting of the Company). On or about 10th October, 1985 the Directors or a Committee thereof will by resolution allot the Ordinary Shares (with Warrants attached) now being offered.

(g) The Company will give notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to section 266 of the Act.

Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, but it shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries, so far as by such exercise it can secure) that the aggregate amount remaining undischarged of all moneys borrowed by the Company and its subsidiaries for the time being (exclusive of intra-group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to twice the Adjusted Capital and Reserves (as defined in Article 1(B) of the Articles of Association).

4 Agreement with Cazenove & Co.

(a) **Expenses of Issue and Application of Net Proceeds**

Cazenove & Co. has, pursuant to an Agreement dated 2nd October, 1985, agreed with the Company and Henderson Administration, subject, *inter alia*, to the Ordinary Shares (with Warrants attached) now being offered being admitted by the Council of The Stock Exchange to the Official List not later than 15th October, 1985 (subject to posting of Letters of Allotment) to procure subscribers for, or in default thereof to subscribe, such of the 15,000,000 Ordinary Shares as are not taken up pursuant to the Offer for Subscription for a commission of 2 per cent. (exclusive of Value Added Tax) of the aggregate issue price of 12,200,000 of such Ordinary Shares (with Warrants attached), out of which Cazenove & Co. will pay a commission of 1.25 per cent. of such issue price to sub-underwriters or persons (other than Witan) who have, prior to the date of this document, indicated their intention to apply for Ordinary Shares pursuant to the Offer for Subscription. The Agreement contains certain warranties and indemnities given by the Company and Henderson Administration and may be terminated by Cazenove & Co. in certain exceptional circumstances.

(b) The Company will pay the costs and expenses of and incidental to the issue, including all accountancy and legal expenses, capital duty of £152,000, The Stock Exchange listing fee, the above-mentioned commission to Cazenove & Co., the costs of printing, advertising and distributing this document and the fees and expenses of the Receiving Bankers and the Registrars and brokerage of 0.5 per cent. where applicable (see "Terms and Conditions of Application" below) and all applicable Value Added Tax. The aggregate costs and expenses payable by the Company (excluding Value Added Tax where applicable) are estimated to be £585,000. After meeting these expenses, the net proceeds of the issue, which will be available to the Company for investment, are estimated to amount to approximately £14,415,000.

5 Directors' and Other Interests

(a) The addresses of the Directors are set out below. The Directors, including their immediate families, intend to make applications for the number of Ordinary Shares (with Warrants attached) set out below:—

Name and address of Director	Ordinary Shares of 25p each (with Warrants attached) Beneficial	Non-beneficial
M. E. R. Allsopp, 9 Sackville Street, London W1.	—	—
S. R. Burley, 6 St James's Square, London SW1.	1,000	—
G. J. Chandler, Stormont Court, Godden Green, Sevenoaks, Kent.	20,000	—
H. M. Henderson, 12 Tokenhouse Yard, London EC2.	10,000	5,000
R. W. Smith, 26 Finsbury Square, London EC2.	5,000	—

Save as aforesaid, at the date of this document, neither the Directors nor their immediate families have any interests in the ordinary share capital of the Company.

(b) There are no service contracts in existence between the Company and any of its Directors nor are any such contracts proposed.

(c) Mr H. M. Henderson is a partner in Cazenove & Co. who have entered into the Agreement with the Company referred to in paragraph 4(a) above. Mr. R. W. Smith is a director of Henderson Administration. Save as disclosed in this sub-paragraph, no Director is materially interested in any contract or arrangement subsisting at the date hereof which is unusual in its nature or conditions or significant in relation to the business of the Company.

(d) It is estimated that the aggregate emoluments of the Directors for the period from incorporation until 31st October, 1986 will not exceed £12,000.

(e) Save as disclosed in this paragraph, no Director has any interest, direct or indirect, in the promotion of the Company or in any assets which have been or are proposed to be acquired or disposed of by or leased to the Company.

(f) Of the intended applications for 11,300,000 Ordinary Shares (with Warrants attached) of which the Directors are aware, one will be made by Witan for 2,800,000 of the Ordinary Shares (with Warrants attached) which, together with the Ordinary Shares already owned by Witan, would represent 19.7 per cent. of the Company's issued share capital following this Offer for Subscription.

(g) Other than Witan no person is, directly or indirectly, interested in five per cent. or more of the ordinary share capital of the Company.

6 Taxation

Following the payment of a dividend, the Company has to remit to the Board of Inland Revenue an amount of advance corporation tax ("ACT") at a rate which is related to the basic rate of income tax and is currently 3/7ths of the dividend paid. Accordingly, the ACT relating to the dividend currently equals 30 per cent. of the sum of the cash dividend plus the ACT. To the extent that the Company has received dividends in respect of which ACT has been paid, it has no requirement to account for ACT itself.

For shareholders resident in the United Kingdom, the ACT paid is available as a tax credit which individual shareholders who are so resident may set off against their total income tax liability or, in appropriate cases, reclaim in cash. A United Kingdom resident corporate shareholder will not be liable to United Kingdom corporation tax on any dividend received and may be able to reclaim the associated tax credit in appropriate cases.

Whether shareholders in the Company who are resident in countries other than the United Kingdom are entitled to payment from the Board of Inland Revenue of any part of the tax credit in respect of dividends on such shares, depends in general on the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom. Persons who are not resident in the United Kingdom should consult their own tax advisers as to whether they are entitled to reclaim any part of the tax credit, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax in the jurisdiction in which they are resident.

7 Material Contracts

(a) The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are or may be material.

Dated 2nd October, 1985, between the Company, Henderson Administration and Cazenove & Co., being the Agreement referred to in paragraph 4(a) above.

(b) Dated 2nd October, 1985, between the Company and Henderson Administration whereby Henderson Administration has agreed to act as Investment Managers and Secretaries to the Company for a quarterly fee payable in arrears at the rate of 0.25 per cent. of the value of the funds under management (as defined) of the Company at the end of each quarterly period. The Agreement contains provisions indemnifying Henderson Administration against liabilities incurred except where due to its negligence or wilful default. The Agreement is subject to termination by not less than two years' notice by either party expiring on or after 31st October, 1990 and by notice by either party (effective immediately) upon the liquidation of the other party. Compensation may be payable by the Company if the Agreement is terminated as a result of its liquidation if this occurs other than as a consequence of the passing of an Extraordinary Resolution to wind up the Company in 1996 or any fifth year thereafter as mentioned in the section entitled "Duration of the Company" above.

8 General

(a) The Company has not commenced business and has no subsidiaries.

(b) Henderson Administration is the founder and promoter of the Company. Save as disclosed in paragraph 7(b) above no amount or benefit has been paid or given to the promoter and none is intended to be paid or given.

(c) The Company is not engaged in any litigation or arbitration and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

(d) Deloitte Haskins & Sells have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report set out above in the form and context in which it is included.

(e) The principal place of business of the Company is at 26 Finsbury Square, London EC2A 1DA. The Company does not have, nor has it had since its incorporation, any employees.

9 Documents for Inspection

Copies of the following documents will be available for inspection at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB during normal business hours on any weekday (excluding Saturdays and public holidays) for 14 days after publication of this document:—

(a) the Memorandum and Articles of Association of the Company;

(b) the report of Deloitte Haskins & Sells and their written consent referred to above; and

(c) the contracts specified under "Material Contracts" above.

Dated 3rd October, 1985.

Terms and Conditions of Application

(a) Acceptance of applications will be conditional upon permission being granted for the Ordinary Shares (with Warrants attached) of the Company to be admitted to the Official List of The Stock Exchange not later than 15th October, 1985 subject only to posting of Letters of Allotment. Application moneys will be returned (without interest) if such permission is not granted by that date and, in the meantime, will be retained by The Royal Bank of Scotland plc (the "Receiving Bankers") in a separate account.

(b) The Company reserves the right to reject in whole or in part or scale down any application and, in particular, multiple or suspected multiple applications and to present for payment any cheques or banker's drafts received. If any application is not accepted in whole or in part or is scaled down the application moneys or, as the case may be, the balance thereof, will be returned (without interest) by returning the applicant(s)' cheque or banker's draft or by crossed cheque in favour of the applicant(s) through the post at the risk of the person(s) entitled thereto.

(c) By completing and delivering an Application Form, you (as the applicant(s)):—

(i) offer to subscribe for the number of Ordinary Shares (with Warrants attached) of the Company specified in your Application Form (or for such smaller number for which the application is accepted) subject to the Prospectus relating to the Company dated 3rd October, 1985 (the "Prospectus"), including these terms and conditions and the Memorandum and Articles of Association of the Company;

(ii) authorise the Receiving Bankers to send a Letter of Allotment for the number of Ordinary Shares (with Warrants attached) for which your application is accepted, and/or a crossed cheque for any moneys returnable by post, at the risk of the person(s) entitled thereto, to your address (or that of the first-named applicant) as set out in your Application Form and to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the Register of Members of the Company in respect of such Ordinary Shares (with Warrants attached) of the Company the entitlement to which has not been duly renounced;

(iii) agree that, in consideration of the Company agreeing that it will not prior to 11th October, 1985 issue or allot any of the Ordinary Shares (with Warrants attached) of the Company the subject of this offer to any person other than by means of the procedures referred to in the Prospectus, your application may not be revoked until after 11th October, 1985 and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon despatch by post to or, as the case may be, receipt by the Receiving Bankers of your Application Form;

(iv) warrant that your remittance will be honoured on first presentation;

(v) agree that any Letter of Allotment and any moneys returnable to you may be retained by the Receiving Bankers pending clearance of your remittance;

(vi) agree that all applications, acceptances of applications and contracts resulting therefrom under this offer shall be governed by and construed in accordance with English Law;

(vii) warrant that, if you sign the Application Form on behalf of somebody else, you have due authority to do so;

(viii) confirm that in making such application you are not relying on any information or representation in relation to the Company other than those contained in the Prospectus and you accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof shall have any liability for any such other information or representation.

(d) Acceptance of applications will be effected at the election of the Company either by notification of the basis of allocation to The Stock Exchange or by the determination of the number of Ordinary Shares (with Warrants attached) of the Company for which applications are accepted pursuant to the arrangements between the Company and the Receiving Bankers.

(e) All documents and cheques sent by post will be at the risk of the person(s) entitled thereto.

(f) No person receiving a copy of the Prospectus, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Form could lawfully be used without contravention of any registration or other legal requirements. Any person outside the United Kingdom wishing to make an application hereunder must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory.

(g) A commission of 0.5 per cent. plus Value Added Tax will be paid to Stockbrokers and Recognised Banks on allotments made in respect of applications bearing their stamp and Value Added Tax registration number (if applicable). This commission will not, however, be paid in respect of (i) allotments made on applications from those persons who have prior to the date of this document indicated their intention to make applications to the extent that they apply for the Ordinary Shares (with Warrants attached) for which they have so indicated their intention to apply or (ii) allotments which arise out of an underwriting commitment or (iii) the allotment made on the application to be made by Witan for 2,800,000 Ordinary Shares (with Warrants attached).

Copies of the Prospectus (which includes listing particulars with regard to Strata Investments plc in accordance with The Stock Exchange (Listing) Regulations 1984) and the Application Form can be obtained between 7th October, 1985 and 21st October, 1985 from:—

HENDERSON ADMINISTRATION LIMITED,
26 Finsbury Square,
London EC2A 1DA

CAZENOVE & CO.,
12 Tokenhouse Yard,
London EC2R 7AN
and
The Stock Exchange

THE ROYAL BANK OF SCOTLAND plc,
67 Lombard Street,
London EC3P 3DL

Procedure for Application

1
Insert in Box 1 (in figures) the number of Ordinary Shares (with Warrants attached) for which you are applying. Applications must be for a minimum of 100 Ordinary Shares or in integral multiples thereof.

2
Put in Box 2 (in figures) the amount of your cheque or banker's draft. The amount of your cheque or banker's draft should be equal to the subscription price of 100p per share multiplied by the number of shares inserted in Box 1.

3
Sign and date the Application Form in Box 3.

The Application Form may be signed by someone else on your behalf (and/or on behalf of any joint applicant(s)) if duly authorised to do so, but the power(s) of attorney must be enclosed for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

4
Put your full name and address in BLOCK CAPITALS in Box 4.

5
You may apply jointly with other persons.

You must then arrange for the Application Form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons). Their full names and addresses should be put in BLOCK CAPITALS in Box 5.

6
Box 6 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign in Box 3).

If anyone is signing on behalf of any joint applicant(s), the power(s) of attorney must be enclosed for inspection.

7
You must pin a separate cheque or banker's draft to the Application Form. Your cheque or banker's draft must be made payable to The Royal Bank of Scotland plc for the amount payable on application inserted in Box 2 and should be crossed "Not Negotiable".

No receipt will be issued for this payment, which must be solely for this application.

Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be presented for payment through the clearing facilities provided by the members of those Clearing Houses. The cheque or banker's draft must show the appropriate sorting code number in the top right hand corner.

Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any moneys to be returned will be sent by crossed cheque in favour of the *person(s) named in Box(es) 4 (and 5).*

★
You must send the completed Application Form by post, or deliver it by hand, to The Royal Bank of Scotland plc, New Issues Department, P.O. Box 425, 67 Lombard Street, London EC3P 3DL so as to be received not later than 10.00 a.m. on 10th October, 1985.

If you post your Application Form, you are recommended to use first class post and allow at least two days for delivery.

Basis of Acceptance and Dealing Arrangements

The Application List will open at 10.00 a.m. on 10th October, 1985 and may be closed at any time thereafter. It is expected that Letters of Allotment will be posted to successful applicants not later than 15th October, 1985 and that dealings in the Ordinary Shares (with Warrants attached) will commence on 16th October, 1985.

Arrangements have been made for registration of all the Ordinary Shares (with Warrants attached) now offered for subscription, free of stamp duty and registration fees, in the names of subscribers or persons in whose favour Letters of Allotment are duly renounced provided that, in cases of renunciation, Letters of Allotment (duly completed in accordance with the instructions contained therein) are lodged for registration by 3.00 p.m. on 22nd November, 1985. Share certificates and Warrants will be despatched on 20th December, 1985.

Application Form

STRATA INVESTMENTS plc

STRATA INVESTMENTS plc

(Incorporated in England and Wales under the Companies Act 1985. Registered number 1940906)

Offer for Subscription of 15,000,000 Ordinary Shares of 25p each (with Warrants attached) in Strata Investments plc at 100p per share, payable in full on application

1 I/We offer to subscribe ______ **Ordinary Shares (with Warrants attached) in Strata Investments plc** (or such lesser number of shares in respect of which this application may be accepted) at 100p per share on the terms and subject to the conditions attaching to this application

2 and I/we attach a cheque or banker's draft for the amount payable, namely £

3 Dated ______ 1985 Signature

PLEASE USE BLOCK CAPITALS

4 Mr., Mrs., Miss or title Forename(s) (in full)

Surname

Address (in full)

Postcode

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TECHNOLOGY

EDITED BY ALAN CANE

Polyurethane shows its paces in footware

Lucia van der Post on how the shoe industry has taken to using a highly versatile plastic

FASHION, the great dictator of the shoe industry, makes relentless demands for new colours and finishes of product at affordable prices, and increasingly the industry has come to rely on polyurethane to meet that constant call for change.

The traditional high-fashion, expensive end of the shoe market remains much as it has always been. It is the manufacture of sports and leisure shoes that has been entirely revolutionised by polyurethane.

It is only because of polyurethane, which was first used for shoe soling 20 years ago, that we can get the sports shoes we want at the sort of prices we are prepared to pay. It has transformed the cost of manufacture so that in the most highly automated and productive factories, it can cost as little as a few pence to produce a pair of soles.

Where once the traditional shoemaker made a pair of shoes from start to finish, more and more manufacturers are now setting themselves up as specialists in components. Some factories concentrate on producing nothing but soles—thin ones, thick ones, once that look like cork or leather. Others produce uppers alone and there are also businesses which do nothing but assemble components bought.

Polyurethane seems to be the ideal material for the low-cost shoe that the modern sports and leisure-wear market demands. It is an exceedingly versatile material which allows the manufacturer to achieve an almost infinitely variable density or rigidity.

This makes it possible to achieve just the degree of flexibility or rigidity that the particular shoe demands. Nowadays comfort counts, and most sports shoes are formed from at least two layers of differing density which together support the foot in a way that no other material could match.

But it is in meeting buyers' longings to be highly fashionable that polyurethane comes up trumps. The moulding process means that a wide range of finishes can be incorporated into the sole design at very little extra cost.

Already, exceedingly realistic leather look-alike finishes have been achieved and there seems no end to the potential finishes in sight. Besides cork, shell, silk, velvet and shiny lacquer, there are lots more ideas in the pieline. Things have come a long way since the early high platform shoes that heralded the arrival of polyurethane in the shoe market.

The business is a highly competitive one. Customers want a steady stream of new ideas, new colours, new effects and new finishes.

One company which has made a speciality of adapting speedily to customer demand is ICI Deggendorf, a subsidiary of Deutsche ICI.

Though helped by its access to ICI's vast technical expertise, much of its success lies in the fact that it has deliberately kept its operation small. Otto Ziegimeier, its director, feels one of his company's chief assets is its high degree of specialism in its field and its ability to adapt faster and more willingly than its competitors.

The foundation of its success, of course, is its chemical specifications, but it has won a strong reputation for it willingness to work with the client to help him produce the product he has in mind.

ICI Deggendorf now offers systems for both direct soling on to uppers as well as unit soles. It was the first to develop the two-density sole system which means a sole can consist of two different degrees of thickness and density. The shoe cap, therefore, have a very tough hard-wearing outer surface but cushion the foot with a softer, more comfortable inner one. It also makes it possible to produce two-colour soles.

Though polyurethane is most used at the leisure end of the shoe industry it has a very serious role to play in enabling manufacturers to provide efficient footwear to less developed countries at prices that the indigenous populations can afford. It is no exaggeration to say that in many of these countries much of the population would go unshod if polyurethane footwear systems had not been developed.

Why plastic is good for the sole

Alan Cane

IT MAY, as Lucia van der Post suggests, cost only a few pence to manufacture a simple polyurethane sole, but most sports enthusiasts are used now to paying substantial sums for shoes which will provide the support and cushioning they need.

You can spend £100 a pair, in fact, if you want the top-of-the-range model, the 1300, from the U.S. company New Balance. What makes a running shoe different from, say, a tennis shoe is the amount of cushioning between the outsole — generally built of hard carbon rubber — and the insole.

Commonly there is a midsole and a heel wedge both made of ethyl vinyl acetate (EVA), a foamed (air bubble-filled) material which in different densities provides all the cushioning a runner could want.

But it starts to deteriorate from the moment the shoe is first used. It loses its spring with wear and can collapse completely. One answer is to use compression moulded EVA which results in a different shape of air bubble and a longer lasting material. New Balance has gone a step further. It encapsulates its compression moulded EVA in the ubiquitous polyurethane. The cost of the shoe results from the quality of the materials used and the technical difficulties involved in bonding the EVA and the polyurethane to make a long-lasting, stable sole.

Nike, an innovative U.S.-based company which makes shoes much favoured by the world's top sports people, has a different approach. It encapsulates an air cushion a little like a miniature "Lilo" in the midsoles of its shoes. The channels of the cushion are filled with a gas under pressure—the surrounding material can be EVA or polyurethane depending on the sport the shoe is intended for. Nike has recently created a stir with advertisements for a "running sock," little more than a fabric sock fastened to the foot with straps, coupled to a full-length air sole.

The sock is made of "ladies girdle fabric," according to Mr Brendan Foster, the former UK international athlete who heads Nike in the UK. The sole is polyurethane. Already in use by international runners, the sock is expected to sell for about £50.

Nike running shoes in the £30-£70 bracket are tending towards full-length air soles. Its tennis and basketball shoes have air wedges in the heels for comfort and next year it intends to sell soccer boots with air wedge heels.

A more traditional approach to cost is seen in sports shoes made by the UK company, Reebok. It makes its aerobic shoes in the Far East but its high performance shoes in a small Bolton factory staffed by only 35 people.

The secret is quality materials and hand craftsmanship. There is, for example, no computer stitching; cutting and manipulation of the shoe sections are all by hand.

Reebok has had its share of innovation, however. Its aerobic shoes are crafted from garment, as opposed to shoe quality, leather only a millimetre or so thick. To prevent it collapsing, it is bonded to a fine nylon backing using a proprietary bonding process.

It has also pioneered the use of polyurethane for the plate which holds the mounting on a spiked track shoe. Reebok claims it is as strong as, and will outlast, the nylon conventionally used.

Pam Shriver in action at Wimbledon. Nike tennis shoes feature air cushions in the heel.

A key to compatible computers

WHILE THE computing industry and the world's standards bodies grapple with the problems of finalising standards for computer communications, a Canadian company recently arrived in London has developed a system for translating documents from one maker's format to another.

Lack of compatibility has caused problems for companies using word processors from different manufacturers. Often little or no thought was given to future communications at the time of purchase, and users simply bought the best machines to suit their various purposes.

Large companies installing the machines at different sites or even in different departments on the same site have rapidly discovered that direct document interchange is usually impossible.

Keyword Office Technologies of Calgary, Alberta, has developed Com-File, which applies some document conversion software it recently developed to telecommunications facilities the user already employs, like PABX, local and wide area networks.

The system first converts the document into the Com-File format, then transmits it and finally restores it to its original format at the other end.

In the UK, Keyword is at Anchor House, Britten Street, London SW3 (01 437 6900).

Plessey boosts its IDX exchange

PLESSEY has announced an improved version of its IDX (integrated digital exchange), a form of company telephone exchange or PABX which was introduced in 1983 and has now achieved sales of 1,600 units.

The new PABX is called ISDX, the "S" standing for "services." As well as exchange equipment, ISDX includes a number of new terminals which allow voice, text, data, facsimile, telex and, ultimately, video services to be integrated and switched from one terminal direct to another within a company.

The exchange hinges on the idea that once information of whatever kind is converted to digital form, it can be switched between screen/keyboard terminals exactly as telephone calls are at the moment. This is because, once converted, all these signals are in exactly the same form—basically a stream of on-off pulses—and can be handled in the same way by digital switches inside the exchange.

Such services have been impossible up to now because in their original "analogue" form, the signals are very different and need different circuits and equipment to handle them.

Developments like this are going on in all the world's major telecoms companies hand in hand with similar plans for the public telephone network called ISDN, or integrated services digital network.

ISDN is dependent on a massive programme by British Telecom and its counterparts throughout the world to instal the necessary digital exchanges in the public network. These information exchanges, called System X in the UK, will have a dramatic effect on public communications once they are widely installed.

In place of separate systems for voice (the ordinary telephone), data (Datel and packet switching, for example), and telex, all will be handled by one network with common, digital public exchanges.

Person-to-person communication of various kinds, information retrieval, home security systems, financial transactions, education and entertainment will all be handled by the same, unified system.

In the meantime—it will be some years before the program is complete—Plessey and others have realised that such facilities can be provided in advance within private business premises.

They have designed the systems so that, when the time comes, information will be able to flow out of a company's PABX, across the public networks into a similar PABX in the UK, Europe, or on the other side of the world.

Marconi's Mandarin aims to bring quicker responses to questions in the classroom

MARCONI Instruments has combined computer aided design (CAD), graphics display, audio response and video disk storage to produce a new electronic teaching and training aid called Mandarin.

The idea of applying computer, screen and keyboard to teaching is not new, but according to Marconi, existing systems tend to be slow, both in terms of response to students' actions and the time taken for instructors to prepare the programs.

Mandarin uses modern CAD techniques to allow complex coloured graphics to be compiled as teaching aids. It enables a one-hour instruction program to be compiled in about 40 hours. For the student, new graphics and data appear on the screen in less than two seconds.

The software runs on an IBM PC and it is claimed that neither student nor program originators need any knowledge of computers.

Mandarin has two types of terminal, one for student and the other for instructor. Starting from scratch, the instructor can call on shapes from a computer library to position and build up block diagrams, schematics, mimic diagrams and sketches, with suitable annotation. He can also invent new shapes likely to be used frequently and keep them in the computer.

If necessary, coloured photographs or film sequences can be introduced into the program from the Philips video disc, as can audio response to students' actions.

Optionally, preparation can be spread with the aid of a "mouse." This is a small block moved over a horizontal tablet on the desk top. Its motions are copied on the screen, allowing users to highlight items on the screen with a moving point of light. This way, lines can be drawn, or a text "menu" item selected for further action on the screen.

Students can subsequently use the program, with a degree of interaction decided by the programmer. They answer questions, react to stimuli of various kinds; or record their results with the minimum of delay on screen between cause and effect.

Programs can be written for students to use on their own, or for accompaniment by an instructor, allowing "unscheduled" questions to be put by students as in a normal classroom.

The basic system of one terminal costs about £12,500 and the video disk option adds another £3,000. More on 0727 59292.

FINANCIAL TIMES SURVEY

Monday October 7 1985

Franchising

The franchising industry in Britain is still at an early stage compared with developments in the U.S., Japan and other European countries. Even so, there are signs now that the UK industry is set for record expansion with turnover reaching £5bn a year by 1989

High rate of success

By DAVID CHURCHILL
Consumer Affairs Correspondent

THE FRANCHISING sector in Britain believes it is on course for the sort of rapid growth in the late 1980s that has eluded it for much of the past decade. Total franchise turnover this year of about £1.7bn is expected to reach £5bn by 1989, at current prices, while the numbers directly employed are forecast to treble to almost 350,000.

This optimism is based on a variety of factors, not least the continued buoyancy of consumer spending and the belief that some of the worst abuses of individual franchises by unscrupulous entrepreneurs have now been largely—but not totally—eradicated.

In addition, the development of franchising in the UK is still at a relatively early stage in comparison with the U.S., Japan and other European countries. Retail franchise operations are still in their infancy, particularly in the UK but are potentially one of the key engines of growth for franchising in the next few years.

Yet the optimism among franchise companies is tempered by the nagging doubts as to why British franchising has lagged behind its development in other countries. Widespread comprehension of the complexities of franchising for both companies and individuals is still limited.

"Franchising is neither a panacea for business difficulties nor a guarantee of success for those adopting it," points out Mr Clive Grant, author of a recent study on franchising published by the Economist Intelligence Unit. "It is vulnerable to abuse and demands a high degree of co-operation on the part of those engaged in the relationship."

However, he adds that "properly and responsibly deployed it has proved to be a rewarding system for business and empolyment creation and growth."

Business format operations

Yet franchising is hardly a new concept in Britain. Its origins can be traced back almost two centuries to when the brewers first created the tied-house system to guarantee outlets for their beer. It developed in the UK this century mainly in the motor trade, through franchised petrol stations, car dealers, and spare parts dealers, as well as into food retailing with voluntary groups such as Spar and VG.

However, it is the second generation — or "business format" — franchise operations where most of the growth is being recorded and on which most attention from companies and potential franchisees is being focused. These franchises tend to be in fast food, servicing, and retail sectors.

The range of franchises on offer will be amply demonstrated at the National Franchise Exhibition which opens this Friday at the Kensington Exhibition Centre in West London at which more than 100 exhibitors and over 10,000 would-be franchisees are expected to attend.

Franchising, by definition, is where a company establishes a contractual relationship with owners of separate businesses which operate under the franchisor's name in a specified manner to market a product or service.

The franchise company — the franchisor — offers the would-be small businessman — the franchisee — the essential know-how, equipment, materials and local rights to a nationally advertised trade name.

The franchisee usually pays over a lump sum to begin with, then a continuing royalty which can either be a percentage of turnover or a surcharge on the cost of the basic supplies.

The royalty covers the cost of any further training, advice, administrative back-up and local and national advertising. The reputable franchise company is as keen as the franchisee that the new business does well since both their futures depend on it. Mutual dependence is the hallmark of a good franchise operation.

Research carried out for the British Franchise Association—the main trade body for the industry — shows that the outlay required from a franchisee is on average £26,000 per unit, comprising just under £5,000 for the fee and £21,000 for the equipment and fittings. To this must be added, by the stage the franchiseee reaches his "recommended" level of turnover, a further £9,900. This is made up, on average, by a 5.5 per cent royalty on turnover costing £6,875, a 4.5 per cent mark-up on all supplies bought from the franchisor (£1,850), a contribution to advertising which averages £1,080, and "flat charges" amounting to around £100.

These payments vary considerably both in range and combination. Fees can range from under £1,000 to over £100,000, while equipment can cost up to £100,000. Royalties on turnover can approach 15 per cent, and in a few cases the mark-up on supplies can reach 50 per cent.

For the would-be small businessman, perhaps disillusioned with his present job or having been made redundant, franchising offers an ideal way to start up his own business. Although an individual could set up in business on his own, selling hamburgers or offering a drain-clearing service, the numerous small businessmen who end up in the bankruptcy courts is a clear sign that it is not so easy to run your own business.

Franchising aims to take some of the obvious pitfalls away from the small businessman, while giving a lot of the rewards—job satisfaction and the financial advantages of self-employment. Only a relative handful of UK franchises dealing with reputable franchisors fail each year—about 2 per cent on average—with such a high success rate probably being due to the intense personal motivation of the individual franchisee as well as the guidance from the franchising company.

For companies wanting to expand rapidly, but without the financial or managerial resources to do so, franchising offers considerable advantages. Most of the development capital is put up by the franchisee, while the motivation of the franchisee is higher than a centrally-controlled company could ever hope to achieve.

Resurgence of new activity

The drawback with this method of expansion is that it takes control away from the franchisor and a poor franchisee can put the company's whole *franchise operation at risk.*

The growth of franchising in the 1980s is illustrated by the fact that less than a quarter of currently active franchisors were operating franchises five years ago. There are now between 220 and 230 active franchisors, in the sense of having at least one franchisee appointed by them. The average number of units per franchise is 37, making a national total of active units of just over 8,300, each employing on average five full-time and between two and three part-time employees.

The question remains, however, just how rapidly will the sector grow. *Euromonitor*, a market research company, believes that "there now appears to be a resurgence of new and dynamic activity in the market."

A number of factors would seem to support this view from Euromonitor and other industry analysts. These include:

● Few of the existing franchise operations have reached market saturation and even where this may seem likely in the near future, those franchise companies are developing other formats based on their previous successful formulas.

● A number of major new entrants to franchising are likely to emerge in the next few years. Already franchise plans have been announced by Avis, McDonalds, and Ryman and a number of other companies — especially retailers from both Britain and abroad—are considering joining the fray.

● The greater involvement of the major clearing banks such as Barclays and National Westminster should lend greater stability by providing finance for franchisees and, by implication, ensuring that the franchise operation is viable.

● The image of franchising in the past few years has improved significantly, helped by the activities of the British Franchise Association in raising standards and promoting the general concept of franchising.

"Franchising no longer has to prove its viability," suggests Euromonitor. "Any tarnish attached to the reputation of franchising will continue to recede and will, in a matter of years, be no more than the subject of history."

● The general climate for small businesses is likely to continue to improve as a means of stimulating employment.

"We are encouraged by the high rate of success achieved by franchisees compared with that experienced by individuals setting up independently," points out Mr Tony Dutfield, director of the BFA.

One potential hurdle still to be overcome by the franchise sector is the possibility that some of the trading conditions imposed by franchisors might attract the attention of the Office of Fair Trading for being restrictive practices. The OFT is closely watching the development of franchising to ensure that trading standards do not fall.

Many franchisors, however, have nothing to fear from closer Whitehall scrutiny of their activities. *In fact, the franchise* industry would welcome greater Government recognition of the role played by franchising in helping to generate jobs and wealth in Britain in the late 1980s.

● McDONALDS, the world's largest restaurant chain with 8,600 outlets in 39 countries, will appoint its first franchisees in the UK by the end of this year. Meanwhile the company is opening four new restaurants in the UK today, bringing its total in Britain to 175, although there are already 200 branches in West Germany, for example, most of them franchise operations. In the UK, McDonalds invests £500,000 in most of its restaurants and employs over 12,500 people. Wimpy welcomes the McDonalds challenge—**see page 4**

IN THIS SURVEY

Mr Tony Dutfield, director of the British Franchise Association, is encouraged by the high rate of success achieved by franchisees, compared with people setting up business independently

● Mr Roy Bishko, chairman of Tie Rack; marketing philisophy pays off

CASE STUDY: TIE RACK — By DAVID CHURCHILL

Success for the specialist retailer

TIE RACK, as the name implies, is a specialist retailer selling ties. Founded just over four years ago by Roy Bishko, a South African living in the UK for the past 13 years, the company has now rapidly expanded through franchising to embrace some 49 outlets — 30 of which are franchised.

Bishko turned to franchising as a means of capitalising quickly on his initial idea of promoting ties as a separate menswear market. It was a concept that needed rapid expansion to help generate consumer awareness among men of ties as fashion accessories. The strategy was that by expanding the number of shops, the overall market would be expanded.

The idea for Tie Rack began as something of a gimmick in one of Bishko's small Oxford Street heel-bars: "Ties at sensational value!" ran the poster and silk ties were offered at silly prices.

The idea quickly caught on, however, as "our customers found that they could buy two ties for the price of one," says Bishko. "This is purely the result of specialisation: fast reaction to demand, concentrating on the single product field, and close liaison with our manufacturers."

Tie Rack's marketing philosophy is simple: sell a wide variety of quality ties at the lowest possible prices, by bulk buying the goods and selling from small outlets in locations with high customer flow such as rail and Tube stations, airports, and prime High Street sites.

Tie Rack helps its franchises find such prime sites by taking them to a potential franchise. This means that initial capital is smaller than it would otherwise be — between £15,000 to £20,000 on average.

Tie Rack franchisees come from diverse backgrounds such as a dentist, teacher, grocer, car dealer and so on. "People apply themselves to their business in a way few managers ever do and, as a result, sales grow faster," Bishko says.

Inevitably, Tie Rack's success — turnover is running between £8 and £9m — has spawned competitors. One former employee has set up "Sock Shop" — trying to do for socks what Bishko has done for ties.

The benefits of expansion through franchising are convincing, says **Joan Anderson**

How to franchise a business

DESPITE THE recent growth of franchising in the UK only a minority of existing or emerging companies fully understand the franchise concept.

The theory is a simple one: the franchisor has a saleable idea with wide potential application, but he lacks the resources, both financial and managerial, to implement it on more than a localised scale. He therefore franchises (in effect licensing with stricter controls) the idea to enterepreneurs who, unlike the would-be franchisor, have resources, the motivation to run a business themselves and ideally need to "buy into" an established and attractive business which should guarantee them success.

The practice is more complex. An agreement is signed by both franchisor and franchisee, granting the franchise for a period usually between five and 10 years. The details will vary according to the nature of the business concerned. Most franchisors charge a large "entry fee," for the rights to the franchise and this may or may not include the price of the lease of premises. (If this is not included, a separate "capital requirement" sum will be specified). Thereafter, unless the parent business is effectively a manufacturing and wholesaling one which has a captive market in its franchisees, an annual royalty, at anything from 1 to 10 per cent of turnover is levied, out of which a specified sum is allocated for central marketing and advertising purposes.

Initially the franchisor provides training and finds a suitable property which he may sub-let to the franchisee who will alternatively sign the lease himself. Opening "hand-holding" is provided and thereafter continued support can be on many levels.

The most common type of franchise are fast food, retail and service businesses. In each case franchising will only succeed if there is a strong, and fashionable, image or "brand" with which the franchisee can easily identify.

Equally there must be strict central guidelines covering every aspect of the business. Demand is then created by the franchisor, to be serviced by the franchisee.

Gordon Roddick, chairman of the Body Shop, now operating 166 franchised and six company run outlets throughout the world, gives two simple reasons for his choice of the franchise route and these are the two most commonly cited factors determining such a decision: "We did not have the cash to invest in numerous outlets ourselves, nor the management infrastructure to cope with a large number of stores, but we knew that we had an attractive and marketable trading format."

The most common type of franchise operation is for fast food, retail and service businesses

Granting its first two franchises in 1977, the Body Shop grew rapidly and by 1983, the company was operating 37 UK franchises, 56 overseas outlets, 6 company owned shops, and was ready for a stock market flotation, which proved phenomenally successful.

The Body Shop acts as a wholesaler and is guaranteed through its franchisees a market for its goods, lessening the risks normally involved in manufacturing. The other responsibilities of the still light central management, are those central to the Body Shop image; marketing, design and training as well as initial help with the property search.

The lease is then in the franchisee's name, but the Body Shop reserves the right to re-locate if an outlet proves too small or if, for example, the site profile shifts with the opening of a new shopping development.

Overseas, a head franchisee is appointed, who then has complete responsibility for operations within a particular country.

Tony Dutfield, director of the British Franchise Association, identifies a phase in the development of a franchise operation where control and form of middle tier of management become essential for continued successful expansion. The late 1970's saw a burgeoning of service franchise operations, many of which did not survive, partly because the concepts and markets had not been fully tested, but mainly because of insufficient company managerial control.

Gordon Roddick now feels that an interim management level is required, to ensure that the Body Shop's standards are maintained, whereas when the company was smaller, unannounced visits were sufficient means of monitoring the stores.

The Body Shop and a number of other franchise operations emphasise the importance of company owned stores for testing of new designs and products, for training purposes and to maintain contact with the customer, which can be easily lost in a franchised business.

Almost any kind of business can be suited to franchising. Tony Dutfield would only exclude operations where the technique involved is so complex that it cannot easily be learnt by a franchise. "The range of businesses currently franchising is enormous. One of the most unlikely is Complete Weed Control, a weed-killing service for schools, hospitals and colleges, and the many drain clearage companies. I would only stress that there must be sufficient margins in the business to provide for both franchisor and franchisee and that, of course, the chosen area of operation must not be approaching saturation."

There is nevertheless a danger that franchising will be chosen when a company is in difficulties, and franchising is then seen as an escape route, whereby the burdens of ownership and management can be lifted. Many long-established companies are, however, opting for franchising for other, more positive reasons. Exchange Travel, a growing independent travel agent, is one company which has recently taken such a step.

It saw franchising as a means to rapid expansion and of giving it better performing agencies. The company's experience since the opening of the first franchise in July 1984, has justified this confidence.

Despite some drawbacks, the potential advantages in franchising for both a young company and the entrepreneur are considerable

Tony Dutfield claims that "in general, there is an encouraging trend towards responsibility, on both sides." Selection of franchisees is a more stringent process than it was. More liquidity is required, and while advice on financing is usually provided, EEC legislation now forbids franchisors formally to offer introductions to particular banks. Would-be franchisees are now tending to approach the BFA before they have made an investment, and the Association is planning a "nursery" organisation to aid first-time franchisees.

Tony Dutfield stresses that, especially in the service area, the purchase of an idea must not be seen as a guarantee of success. "The franchisee must bemarketing-oriented. The chimney cleaner must be sufficiently switched on to offer add-on products or services and be able to communicate their benefits."

The benefits of expansion through franchising are clear and convincing. For the franchisor, the most important advantage is the facility to expand without investing in property, but here the consequent lack of assets is ultimately a drawback. The lack of control at branch level can also be a problem, as indicated, and there are several legal anomalies which can obstruct expansion. At present, where there is a royalty payment involved, franchising companies are excluded, both from BES possibilities and from enterprise zone allowances. Tony Dutfield comments: "We are pressing for better understanding of the special nature of franchising, for instance, consideration for taxation purposes of the large proportion of resources put into training by a franchisor."

From the franchisee's point of view, the main disadvantage can be the upltimate lack of financial control, although some companies such as PDC Copyprint are now offering what amount to phased buy-out options. Naturally, while the franchise relationship is essentially a co-operative one, and the times of exploitation by fly-by-night double glazing operators are over, franchisors do draw up agreements in their own favour.

It is clear, however, that despite these drawbacks, the potential advantages both for the young company and the entrepreneur are considerable, and there are many more who stand to benefit from choosing such a route.

(Joan Anderson is Editor of Wood MacKenzie's "Market-place").

The pros and cons of being an entrepreneur

Becoming a franchisee

DAVID CHURCHILL

MORE THAN 10,000 potential franchisees are expected to attend next weekend's National Franchise Exhibition, at Kensington Exhibition Centre, West London, in an attempt to find the small business opportunity that will change their lives.

Many of the exhibition's visitors almost certainly will be nurturing the dream of running their own business, with all the benefits of self-employment and escape from the frustrations of working for a large organisation.

For many people the dream will remain simply a fantasy escape from their present job —but, equally, many will find in franchising the opportunity they are seeking and actively take up a franchise within the next 12 months.

Why will they do it? Franchising offers most of the advantages of running your own business—such as independence and job satisfaction — without many of the drawbacks which result in such a high failure rate for most small businesses. Franchise operations do fail as well, but the rate is generally much lower than that for small businesses overall.

Moreover, taking on a franchise with one of the more reputable and well-established franchise operations, and raising finance through a clearing bank, makes the potential risks much less. Neither the banks nor the franchisors want their franchisees to fail, so their screening procedures to weed out those unsuitable are fairly rigorous and becoming increasingly sophisticated.

Examples

Although the average franchisee is aged about 40, married with children, and with a history of fairly steady employment there is really no such animal as the typical franchisee. As Clive Grant points out in a recent Economist Intelligence Unit report: "Franchisees exhibit a variety of characteristics and assume many guises."

The majority of franchisees are either white collar workers or self-employed before entering franchising. Manual workers are not a significant force as yet, while executive-level redundancies during the recession has prompted a surge in this type of franchisee.

In addition, women are showing an increasing interest in franchising. "The decision to consider franchising is usually a very conscious one made frequently at a watershed point in life," comments Max McHardy, chairman of the British Franchise Association. "Women seem naturally to generate more such occasions. During marriage and after the children have grown up are the most common, but whereas men have always been required to follow a career path, usually resulting in the search for a stable working life, women traditionally have been far more able to react to changing personal aspirations."

Sue Rorstad, managing director of the growing Poppies franchise, agrees that franchising opens up many opportunities for women. "It has enabled me to be a fulltime mother and fulltime businesswoman simultaneously," she says.

Her concept for Poppies came from her local government background where she realised that there was a lack of high quality and professionally-organised reliable domestic help. Thus Poppies began in 1980 and joined the Prontaprint group in 1983. The company has developed and widened its services since and "over the next three years anticipate the creation of some 10,000 jobs," Rorstad said.

Most franchisees are individuals rather than companies, operating either as one person units performing a service or as owners of small retail units employing staff to help them. Some single operators eventually take on other franchises as their business prospers although these are not always in the same business. As many as 40 per cent of franchisees now own more than one unit.

Before becoming a franchisee, would-be entrepreneurs should consider a number of factors. Not least are their motivations for going into franchising and people should not delude themselves when considering their own capabilities and long-term ambitions.

You have to establish whether you have the emotional and physical stamina to work long hours to establish a business and whether you can cope with the lack of security involved in not working for a salary paid by a company.

In addition, it is important that a would-be franchisee discusses with their marriage partner the hard work and commitment needed to make a franchise successful. Both may need to put in a great deal of work. It may be that on considering it carefully, you and your family decide that the financial strain in the short-term and possible long and unsocial hours are simply not worth it.

If you are satisfied that you have the right approach to become a franchisee, then you have to decide what sort of franchise operation you want to get into. Do you, for example, want to run a fast-food outlet with the unsocial hours, or be constantly on call for a service business such as drain-clearing? Or would you prefer to work more normal hours in a retail franchise such as instant printing or film developing.

Another determining factor is the amount of capital you have available or have access to. Small service franchises cost considerably less than a fast-food operation which has high start-up costs. But choosing a franchise simply on the amount of funds available — rather than because you feel it is right for you—may lead to problems later.

Choosing the franchisor can also be fraught with difficulties for potential franchisees. One easy way of sorting out the better franchisors is simply through considering the way the franchise is offered. For example, the use of an advertisement that gives only a post office box number may be an early warning sign.

In addition, the first personal contact with the franchisor can also give some clue as to the type of operation run by the franchisor. Where the initial meeting is held—office, hotel room or bar—can be a clue, although would-be franchisees should be wary of being taken in by a too-affluent setting for the initial meeting.

One franchise consultant suggests that potential franchisees remember "that the good franchisor is someone who wants to form a lasting partnership with you and not just sell you something quickly which you will regret later."

Questions

It is possible to tell a lot about a company by establishing such facts as how long it has been in business, its financial strength (including credit rating) and the bank references it offers. Potential franchisees should ask about its plans and prospective development, how selective it is in choosing franchisees, and how successful these become. Ask to talk to some of its franchisees at random.

Find out about the whole range of the franchised product—including advertising, any machinery, and administration. Consider if you would buy the finished product or service on the open market. Consider also whether or not it is priced and packaged competitively.

Once a franchise has been chosen and acquired, will franchisees really have the independence they seek? A survey by Prof. John Stanworth of the Polytechnic of Central London into the motivations and working aspects of becoming a franchisee found that few franchisees felt they were being over-supervised.

"Franchisees' independence may be less than the most independent of small businesses but, in reality, many franchisees have exchanged an element of their independence for the kind of security and support that allows them real independence in many areas of operation," he says.

FRANCHISING 3

Clearing banks ready to back promising ventures

UK Financing

TIM DICKSON

THE UK clearing banks have recently developed a whole new taste for franchising. National Westminster, for example, appointed the first full time franchise manager in 1981 (it now has two), Barclays followed suit later in the same year, Lloyds and Midland appointed franchise managers within established lending divisions in 1982 and 1983 respectively, while among the smaller banks Williams and Glyn's (now merged with the Royal Bank of Scotland) has also sought to promote a specific interest in this area. Even venture capitalists in Britain are being attracted to franchising with the launch this year of Franchise Investors Limited (FIL), the first ever UK fund specialising in this type of business.

By contrast, most major lenders steered clear of franchising in the 1960s and 1970s when the activity was much smaller and tainted with the excesses of pyramid selling.

As an illustration of recent growth the clearing banks are estimated to have lent £10m to £12bn to franchisees in 1983—yet in the past 12 months National Westminster alone claims to have chalked up around £8m.

The new enthusiasm among lenders for franchised customers has coincided with the banks' development of new services for small business generally. But franchisees are seen as a particularly significant group because (in theory at least) they are marketing a tried and tested product or service with built in back up and support from the franchisor.

Figures show a high casualty rate among franchisees in the first year of operation—about one in four—but thereafter a much lower failure rate than more conventional businesses.

Borrowers should keep this point in mind when negotiating the interest rate on bank funds. But while raising finance for a good franchise is generally easier (and cheaper) than raising cash for an untried venture, success will only be achieved with a well thought out and well presented business plan (a good franchisor should be able to help here). The essence of this exercise is for the borrower to put himself in the shoes of his bank manager. The latter will (among other things) be looking for security (business assets, personal guarantees, etc), a commitment from his customer (willingness and ability to put in equity) and a cash flow sufficient to repay loan and interest on a regular basis.

Banks' policies vary but as a rule of thumb they will contribute anything between 30 per cent and 70 per cent of the money required — the rest will have to come from savings, the sale of assets, a second mortgage, friends or relatives. (Although many managers are more flexible these days, others still stick fairly rigidly to the old £ for £ ratio between proprietors' capital and borrowed money.)

Overdrafts should be used for working capital, not to finance long term assets for which term loans are more appropriate. These can be negotiated with most banks these days on either a fixed or floating rate basis — the cost will probably depend on the amount of security provided but bear in mind that capital repayments can usually be deferred for a year or so, thus easing the early pressures on cash flow.

Franchisees short of their own capital or security may persuade a bank to back them under the Government's Loan Guarantee Scheme. This gives the lender a Government guarantee for 70 per cent of the loan which can be claimed if the borrower cannot repay. Due to the high failure rate of companies using the LGS in recent years — and the consequent level of claims on the Department of Trade and Industry — the cost of the scheme unfortunately makes it less attractive than when it was first introduced in 1981.

Finance houses

Other sources of capital for franchisees include the finance houses of which at least two, First National Securities Group and the Black Arrow Group, have their own special funding packages. The main difference between, say, the FNS strategy and the banks is that all loans have to be secured against the borrower's residence—money can thus be lent more easily to untried franchises and 100 per cent loans can be made when the initial requirement is relatively low.

Normally interest rates charged by finance houses are higher than what is obtainable at a high street bank.

Conscious of the development potential of franchising—some see the current £1bn to £1.4bn annual turnover racing to £5bn in the next five years—Britain's venture capitalists are now displaying a closer interest in the sector. Some of the funds established under the terms of the Government's Business Expansion Scheme (BES)—which provides tax relief for individuals investing in unquoted companies—deal in the relatively small sums which most franchisees are likely to be seeking.

Earlier this year, however, Granville & Co, the London-based licensed securities dealer and fund manager, launched Franchise Investors Limited (FIL) with £1.25m of money from City institutions including PosTel Investment Management and Legal & General Assurance.

"The time is right," says Richard Crook, FIL's managing director. "The 1980s will be the decade of franchising in the UK." FIL's main emphasis will be getting U.S. franchisors to farm out their operations to UK franchisees and the group expects to complete its first deal in the next few weeks. So far it has received more than 60 proposals.

Venture backed franchises, however, will remain the exception—most will end up using their local bank. Banks incidentally often have finance schemes with established franchisors which can be used by new franchisees to get better terms and finer interest rates than other borrowers (provided they furnish a reference from the franchisor).

Banks, by the way, warn against franchisees using the franchisor as a source of borrowing. As one manager puts it, "Where the franchisor has to accept liability for the franchisee's borrowing either on a direct or contingent basis, the question whether that product or service is franchisable is raised. The nature of franchising is that the franchisee is licensed to operate the business format and is responsible for financing his own *independent* business. If the franchisor is liable for the debts of the franchisee the development of the franchise may be slowed down since the franchisor might have difficulty in arranging credit."

Big businesses go world-wide

U.S. the leader

TERRY BYLAND IN NEW YORK

THE PAST five years have seen the U.S. confirm its position as world leader in the franchise business, and also apply its experience and skills to the creation of a world market for the industry.

Inside the U.S. the application of franchising techniques — the licensing of business systems and established trade names to separate entrepreneurs — has burgeoned as the national economic shakeout has thrown up a new breed of businessman. Often disenchanted after working for a big company, these champions of private enterprise have taken readily to franchising.

By the end of this year sales by franchise business in the U.S. will total about $529bn, according to the Department of Commerce in Washington. This represents an annual increase of nearly 10 per cent, and more than sustains the rapid growth of the past decade.

Retailing remains the focus of the franchise industry. About $421bn — or roughly one-third of all U.S. retail sales — were made by franchising companies and their franchises in 1984, and some 5.2m people were directly employed.

Restaurants, usually of the fast-food type, remain the most popular sector of the franchising business. With their rapidly-growing markets and well-tried techniques, fast-food outlets have an obvious appeal for first-time franchisees.

Such outlets, however, increasingly require more capital and stricter management. The better-known franchise names, McDonald, Burger King and their rivals, all hope that new franchisees will turn themselves into successful businesses, running still more restaurants.

The days of the one-family franchisee, making a modest living from a single outlet, seem numbered.

The ideas developed in the fast-food trades have long been successfully applied elsewhere. Motorway service stations, soft drink bottlers, car and truck dealerships stand out in the "traditional" areas of the franchise business. Well over 70 per cent of U.S. franchise operations are in this sector, and industry analysts now warn that trade is likely to level out or even decline over the next five years.

But the lead has already been taken over by a host of new ventures usually categorised as "business format" operations. These franchises aim at specialised markets such as real estate, motels, or even credit collection, some types of accounting, or printing and copying services.

Business format operations seem likely to maintain their rapid growth and provide the main stimulus for the industry up to 1990. About 50 different types of industry are now open to business format franchising and the sector has been expanding at a steady 5 per cent a year.

As the U.S. franchise industry has honed its skills in home markets it has also seized its opportunities overseas. The same trends which fostered the advance of American franchised service industries are to be seen in most other advanced countries.

Since about 1975 the growth in foreign outlets of U.S. franchisers has gathered pace at a spectacular rate. Around 25,600 foreign outlets are now in operation, compared with a mere 3,300 in 1971.

A recent survey of U.S. franchisers indicated that 37 per cent were already operating internationally and that a further 27 per cent planned to do so in the near future.

While the fast-food, and car and truck dealerships represent the majority of overseas franchise operations there are signs that the new sectors are also growing rapidly in foreign markets. Among well-known companies going abroad this year have been such names as Tandy Corporation / Radio Shack, the personal computer retailer, and Holiday Inns, which continues to expand rapidly through franchising its hotel operations.

Canada loses lead

Canada, as might be expected, is the leading market for U.S. franchisers, taking about 30 per cent of the total of foreign operations by U.S. franchisers. But, significantly, Canada's share is falling dramatically, from a high point of 46 per cent in 1971, as other countries are drawn into the U.S. franchise network.

The second-largest foreign market is Japan, with 5,000 franchised units, while the UK ranks third with 2,200 units. Both countries are developing as important overseas markets for the U.S. industry and appear to have the characteristics developed in the U.S.

In Japan about 70 per cent of total franchise outlets are in the well-tried food categories — restaurants, doughnut shops, ice cream parlours and convenience food stores. The Japanese craze for the U.S. way of life seems to be in no way abating.

But the trend of the past year suggests that Japan and the UK may not dominate the foreign side of the industry for much longer. Both Australia and New Zealand, with 61 and 21 U.S. franchise outlets respectively, are proving ready exploiters of such natural advantages as the common language and business methods.

France, which at first proved highly resistant to the fast-food outlets which were the first examples of U.S. franchising to be exported, has recently seen a National School of Franchising open in Béziers and another is expected to open in Paris before long.

The prospects for further international expansion are good and there are now few fears that franchising might prove a wholly U.S. concept which would prove difficult to apply outside North America.

The U.S.-based International Franchise Association, in a survey of its members' experiences overseas, has reported that most enjoyed sales gains of 25 per cent to 250 per cent in their foreign outlets over the past five years. None reported a decrease. Significantly, the vast majority—nearly 80 per cent—of those surveyed did not find it necessary to employ any outside consulting help when seeking non-U.S. business.

The principle of franchising, they found, was already internationally accepted. Those who had not tried marketing their franchises internationally said they had not yet fully exploited their home markets.

Inside the U.S., franchising is regulated by the Federal Trade Commission and by specific state regulations. So far there have been few significant clashes between the U.S. companies and foreign legal authorities.

As U.S. business continues to move away from the traditional, publicly-quoted and funded company towards a more personal and individual type of private enterprise, franchising seems certain to flourish.

Members of the British Franchising Association

FULL MEMBERS of the British Franchising Association are required to have operated a successful pilot scheme for one year and to have at least four franchises, two of whom must have been franchising for at least two years.

AT Computer World, Edgbaston, Birmingham: Sale of microcomputers and computer supplies.

Accounting Centre, Elscot House, Finchley Central, N3: Computerised accounting services and "company doctor" service.

ANC, Grant House, Longport, Stoke-on-Trent: Next-day nationwide parcel freight delivery and collection service.

Anicare Group Services (Veterinary), 27 Buckingham Road, Shoreham-on-Sea, Sussex: Management services to the veterinary profession.

AP Autela, Tachbrook Road, Leamington Spa: Automotive part suppliers.

Apollo Window Blinds, 79 Johnstone Avenue, Cardonald Industrial Estate, Glasgow: Retail franchise—supply of fashion window blinds and associated services.

Badgeman, 544 Chiswick High Road, W4: Manufacture and sale of personal name badges.

A. F. Blakemore and Son, Long Acres Industrial Estate, Willenhall, W. Midlands: Convenience store.

Budget Rent-a-Car International, 85 Great North Road, Hatfield, Herts: Self-drive car, van and truck rental service.

Burgerking (UK), 29 Kew Road, Richmond, Surrey: Fast food restaurants.

BSM City Link Transport, Holdings, 13-14 Ascot Road, Clockhouse Lane, Feltham, Middx.: Same-day and overnight parcel delivery service.

Colour Counsellors, 187 New King's Road, Parson's Green, SW6: Colour catalogued samples of wallpapers, carpets and fabrics.

Command Performance, High End, Troutstream Way, Loudwater, Herts: Ladies and men's hairdressing.

Computerland, Europe, 50 Pall Mall, SW1: Retail sale of microcomputer software and hardware.

Cender Clentech, Abbotts Barton House, Winchester, Hants.: Industrial and commercial ceiling and wall-cleaning specialists.

Davenports Brewery, Bath Row, Birmingham: Retail distribution of beers, wines, spirits and minerals to the home.

Dyno-Rod, 143 Maple Road, Surbiton, Surrey: Drain and pipe-cleaning service.

Everett Masson and Furby, 10 Railway Street, Chelmsford, Essex: Business and commercial property agents.

Exchange Travel (Franchises), 66-70 Parker Road, Hastings, Sussex: Travel agency.

Fotofast (Terryford), 150-158 King's Cross Road, WC1: Receipt and collection of films for processing and the processing of films on retail premises.

Fudge Kitchen (UK), Coniscliffe House, Darlington: Retailing and marketing of confectionery.

Global Cleaning Contracts, 4-6 Lind Road, Sutton, Surrey: Office cleaning, contract sales and management agency.

Holiday Inns (UK), Windmill Road, Brentford, Middx.: Hotels.

Holland and Barrett Franchising, Station Approach, W. Byfleet, Surrey: Health food retail stores.

Home Tune, Guildford Road, Effingham, Surrey: Car tuning service.

Interlink Express Parcels, 22-24 Portland Square, Bristol: Express parcel service.

In-Toto, Wakefield Road, Gildersome, Leeds: Retailing of kitchens and bathroom furniture appliances and ancillary merchandise.

Kall-Kwik Printing (UK), Victoria Road, S. Ruislip, Middx.: Centres offering design, printing, finishing and photo-copying service.

Kentucky Fried Chicken (GB), 403 London Road, Camberley, Surrey: Fast food.

Late Late Supershop, New Century House, Manchester: Convenience store retailing.

Mobiletuning, 7 Nelson Road, Greenwich, SE10: Mobile car engine tuning service.

Nationwide Investigations, 85 Queen Victoria Street, EC4: Private investigation bureau.

Northern Dairies, Faston Road, Wythenshawe, Manchester: Manufacture, processing, packaging, marketing and distribution of milk and dairy produce.

Olivers (UK), Eagle Court, Harpur Street, Bedford: Bakery and coffee shops.

PDC Copyprint (Franchise), 174 London Road, E. Grinstead, Sussex: Quick printing shops.

PPG Industries (UK), Rotton Park Street, Birmingham: Distribution of paint and other products to car repair and respray garages.

Pancake Place, 30 New Road, Milnathort, Kinross: Pancake restaurants.

Pass and Co., 635 High Road, Leytonstone, E11: Timber preservation.

Perfect Pizza, 256 Muswell Hill Broadway, N10: Restaurants and take-away units.

Phildar (UK), 4 Gambrel Road, Westgate Industrial Est., Northampton: Retailing of company's own products, namely knitting yarns, DIY products and accessories.

Pip (UK), Security House, Sumatra Road, NW6: Photocopying, instant printing, artwork and graphic communications.

Pizza Express, 29 Wardour Street W1: Pizzeria restaurants.

Poppies (UK), Coniscliffe House, Darlington: Domestic and commercial cleaning.

Prontaprint, Coniscliffe House, Darlington: Printing shops.

Pronuptia and Youngs (Franchise), 70-78 York Way N1: Bridal wear retail shops. Formal wear hire service for men.

Rodier Paris, 26 Curzon St. W1: Ladies' and gentlemen's fashion clothing.

Safeclean International, Dalmac House, Ardington, Wantage, Oxon.: Hand-cleaning of carpets and upholstery. Curtain cleaning on site.

Servicemaster, 50 Commercial Square, Freeman's Common, Leicester: On-site carpet, upholstery and curtain cleaning. Fire and flood restoration, carpet treatment and repairs.

Silver Shield Screens, 38-42 Holbrook Lane, Coventry: 24-hour mobile windscreen replacement service.

Singer Distribution, Grafton Way, West Ham Industrial Estate, Basingstoke: Retail and after-sales service of sewing machines and related products.

Sketchley, Hinckley, Leics.: Dry cleaning and shoe repairs.

Snap-on-Tools, 85-99 Cross Street, Sale, Cheshire: Distribution of automotive hand tools.

Spar (UK), 32-40 Headstone Drive, Harrow, Middx: Marketing and development programmes for Spar retail shops.

Speirings, Spring Crescent, Southampton: Convenience stores.

Spud-U-Like, 34-38 Standard Road NW10: Fast food restaurants based on baked potatoes.

Strikes Restaurants, 314 Regent Street W1: Licensed table service restaurants.

Thorntons, Derwent Street, Belper, Derbys.: Chocolate and sugar confectionery.

Tie Rack, 62 Brompton Road SW3: Retail neckware and accessories.

Ti/Midas, 107 Mortlake High Street, SW14: Retail car exhaust system replacement.

TNT (UK), Bond Gate, Nuneaton: Collection points for next-day delivery nationwide and European and international courier service.

Unigate Dairies, 14-40 Victoria Road, Aldershot, Hants.: Distribution of milk and dairy products and soft drinks.

Uticolour (Great Britain), 35 North Street, York: Repair, recolouring and restoration of vinyl coverings.

Watney Mann & Truman Brewers, 91 Brick Lane, E1: Licensed house franchises.

Wetherby Training Services, 2 Hastings Court, Wetherby, W. Yorks.: Secretarial and word processing training centres.

R. T. Willis (Food Distributors), New Street, Barnsley, S. Yorks.: Food distribution.

Wimpy International, 214 Chiswick High Road W4: Fast food.

Yves Rocher (London), 169b Borough High Street SE1: Retail sale of Yves Rocher beauty products and sun treatments.

Ziebart International, Crescent Road, Worthing, Sussex: Vehicle rust-proofing and other car-care services.

FRANCHISING 4

● TOURISTS in London enjoy take-away food outside a Wimpy restaurant. Wimpy has more than 420 table service and counter sale restaurants throughout Britain. A counter service franchise costs at least £350,000

Steady demand for fast-food outlets

The food business

DAVID CHURCHILL

FAST FOOD franchising is not only the largest sector of franchising in the UK but also the type of franchising that people most readily understand.

The growth of fast food outlets — selling anything from chickens and burgers to pizzas and ice-creams — has had a chequered history over the past few years, especially as a result of the imposition of VAT on hot take-away foods in last year's budget.

However, the underlying reasons for the growth of fast food in the UK over the past decade remain. This trend has been fuelled by changing lifestyles—the break-up of traditional family units—and the desire for convenience and speed in eating out. The sharp rise in traditional restaurant prices has also helped the much-cheaper fast food outlets to attract customers.

As the market demand for fast food has grown, so major companies have been attracted into the area as a means of diversification into a growth market. Many—but not all—of these companies are using the franchising system as a way of rapid expansion in the UK.

The major exception until now has been the McDonald's hamburger chain which although franchised in the U.S. and other parts of the world has so far decided to establish a firm base in the UK market before expanding through franchising. The company, however, is now understood to be ready to start franchising its operations in the UK.

Britain really first discovered franchised fast food with the Wimpy chain of outlets which started as a J. Lyons group franchised operation. Too rapid expansion, however, led to a lowering of standards in a few outlets but this was sufficient to tarnish the reputation of the whole operation.

Lyons subsequently sold the Wimpy franchise to United Biscuits in late 1976 for some £7m. Initially, the operation consisted of table service restaurants only, but under UB's investment programme, Wimpy has changed radically with the development of new counter-service restaurants.

Wimpy now has over 80 counter-service restaurants in the UK, of which 30 are company owned while the rest are franchised. There are also over 340 table service outlets mainly franchised with many undergoing a re-vamping to improve their image.

Wimpy's counter service restaurant franchises cost a minimum of £350,000. Mr Michael Chambers, Wimpy's franchise sales director, points out that "over the last two years we have had increasing numbers of corporate groups coming to us because they are beginning to recognise that the fast food industry offers good opportunities for diversification."

Chambers says that Wimpy welcomes the potential challenge from McDonald's decision to franchise in the UK. "I think there is enough potential investment for the main two or three franchising companies in the UK," he says. "We welcome McDonald's decision to franchise because it is always nice to be competing with one's main opposition on an equal footing. There is no doubt that being a franchisor is a rather different ball game to operating a chain of company-owned restaurants, so in a sense we are on a rather more equal footing."

Potential

Wimpy's image and operating problems also coincided with the arrival into the UK during the 1960s and 1970s of Kentucky Fried Chicken. KFC is one of the major fast food franchisors in the world with over 7,000 units but with less than 400 in the UK (most of them franchised).

KFC's early entry into the UK market with U.S.-style counter-service outlets gave it an initial marketing edge. However, its market strength was eroded between the late 1970s and early 1980s by the strength of new competition and problems with its market position. KFC had become increasingly reliant on a young customer profile and the late-night trade—both areas where competition was fierce and growth limited. Consequently, it embarked on a market repositioning campaign aimed at appealing to families and focusing on their midday and evening meals.

Mintel, the market research company, suggests that "fast food offers an excellent opportunity for companies established in other fields to diversify, and the market seems to thrive on competition." It argues that "four or five different types of fast food outlet can operate in close proximity, creating a form of fast food centre and drawing more business to the area, which means increased sales for all of the outlets in that area."

Apart from fast food, franchising is also being used by a number of other companies in the food business. Fresh-baked soft cookies, for example, is an American development which is gaining popularity over here with a number of franchised cookie companies, including Millie's Cookies, the Cookie Coach Company—which uses reproduction Edwardian vans—and Cookie Kitchens.

Holland and Barrett, owned by Booker McConnell, has successfully capitalised on the health trend by expanding its health food shops through franchising. It has 149 company-owned shops and 32 franchised outlets and the minimum investment is about £55,000.

Another changing consumer trend may also form the basis for further franchise opportunities. The decline in demand for doorstep delivered milk has made it increasingly uneconomic for the big dairies to continue with this service. However, United Dairies has started franchising a small number of its milk rounds to motivate the milkman to preserve and expand the level of doorstep delivery of dairy products.

Buoyant sector

Retail operations

DAVID CHURCHILL

RETAILING HAS emerged as one of the key sectors with most to gain from franchising in the 1980s. From the emergence of U.S.-style convenience stores such as Sperrings to fashion retailers such as Benetton, the possibilities of expanding rapidly through franchising are increasingly becoming apparent to retailers.

Sketchley, for example, is well established as a retailer offering dry-cleaning services. Last year, however, it decided to expand its operations through franchising to help motivate shop managers.

"In an industry where customers are entrusting us with their personal belongings, the need for shop managers with a dedication to customer services is paramount," points out Mr Chris Jolly, Sketchley's marketing director. "The franchise opportunity enables us to attract a much more committed shop manager and at the moment it is a requirement of our franchise licence that the franchisee is active and on site."

Sketchley also views franchising as a way to start up in areas where it is under-represented and has already licensed three franchisees in Lancashire and Yorkshire. Minimum investment is around £64,000, although only £20,000 "up-front" is needed as the rest can be financed through a bank.

Apart from Sketchley, other major retailers are believed to be considering franchising as a means of growth—such as the Rymans stationery chain.

Well established retail franchises include those operated by the Young's Group. Pronuptia de Paris, a world-wide franchise operation, is operated under licence from the French owners and sells bridal gowns and all other fashions associated with a wedding. Young's Formal Wear hires out morning and evening wear.

Both these franchises are relatively mature in that most of the franchising opportunities are well-established. However, Young's has diversified into a related area — provision of fashionable maternity wear through its La Mama franchises.

Outlets

Competition for La Mama is coming from a French retail franchise of maternity wear called Balloon, owned by La Redoute, a major mail order company. There are already some 45 franchised outlets throughout Europe including four in the UK.

Computer retailers have also emerged as a new franchise development in recent years although fierce competition and changing technology has caused problems for many companies. Mintel, the market research company, believes that the sector will eventually be franchised successfully, "but the high start-up costs mean that this is a field for the true entrepreneur." It suggests that appointed dealers and voluntary trading groups may also have more success than true franchisees.

"The sector will grow, but for the moment it is one to watch carefully for the emergence of a successful format," adds Mintel.

Euromonitor, another research company, also points out that computer retail franchises are expensive, with high initial investment costs and licence fees and royalties. "Clearly, the risks are considerable as there is little margin for error," it points out. Euromonitor also argues that the expansion into business computers by major High Street multiples "does not suggest that the market can accommodate any new mainstream multiples and the spoils will be divided between those currently trading."

Travel is another competitive industry which has seen the emergence of franchised retail developments. Exchange Travel, a well-established travel agency, has turned to franchising even though many in the travel trade believe that travel is too complex a business to be franchised. Exchange Travel believes it has overcome this problem by restricting the number of tour operators and carriers it deals with, by settling operators bills centrally, and by helping to obtain trade recognition for franchisees.

The group has some 55 company-owned shops at present, with a further 15 franchised units and an annual turnover of £55m. Investment costs about £40,000.

As the buoyancy of retail spending holds up throughout the 1980s, and the trend towards specialist retailing also continues, so the opportunities for franchised retailing will undoubtedly increase during the next few years.

No end to the range of services

FRANCHISED services can range from the traditional drain-clearing or carpet-cleaning right through to newer opportunities such as accountancy or marriage bureaux.

The possibilities seem almost endless in providing consumers or companies with services that they need rather than supplying an actual product to sell.

One of the best-known service franchisors is Dyno-Rod, established in 1963 to provide drain and pipe cleaning for companies and homes. Initial investment is relatively small, at £7,800 compared with some other franchises and Dyno-Rod now offers owner-operator franchises rather than territorial franchises. Each owner-operator is able to develop up to a four-man operation depending on the amount of business.

Dyno-Rod has set up two other service franchise operations—Drips Plumbing, an emergency service, and Dyno-Electrics, covering electrical installations and repairs.

The success of Dyno-Rod over the years has, not surprisingly, attracted other companies into the market. Metro-Rod Franchising, for example, also offers a commercial and domestic drain and pipe cleaning service, although the initial investment needed is about £24,000.

Another well-established franchise operation is ServiceMaster, which offers cleaning for both home and office. Initial investment is about £8,750. As with Dyno-Rod, ServiceMaster's success has encouraged competition such as Maids, part of the Global Group, where franchises cost about £12,000.

One of the main service sectors is that offering a service to owners of the 17m or so cars in Britain today. This sector can be divided into four broad categories — rental, tuning, windscreen replacements and car improvements.

Budget Rent-a-Car has traditionally linked its franchises with retail motor dealers but is

Franchised services

DAVID CHURCHILL

now expanding through non-motor sites such as travel agents and hotels. Budget, part of the Transamerica Corporation, claims to be the world's third-largest vehicle rental concern and operates in 100 countries worldwide. Minimum investment is £50,000.

Car tuning is typified by Home Tune, a nationwide network which tunes cars at home or at work. Established in 1968, the company's franchisees tune more than 180,000 cars a year in the UK. Investment required is £8,500. A competitor is Mobiletuning, which states that potential annual earnings are more than £14,000 on an investment of £11,600.

Windscreen replacement franchises include those offered by Silver Shield and Highway Windscreens. Silver Shield provides a 24-hour emergency windscreen replacement service for cars and commercial vehicles and average funding required is between £14,500 and £17,500.

Highway Windscreens offers two types of franchise. The communication centre franchise is directed at people with management, selling, and marketing experience and carries out windscreen replacement services on a regional basis. Mobile workshops are aimed at people with technical skills who prefer to work outdoors. The communications centre franchise costs around £40,000, while the mobile workshop franchise is £6,000.

Apart from cleaning and car services, there are a plethora of other types of service franchises on offer. These include consumer retail services such as Image Haircutters, a hairdressing franchise, or business-to-business franchises such as Prontaprint instant printing.

Another new form of franchise aimed at companies is aimed at providing small companies with specialist management accounting information. The leader in this type of service is the Accounting Centre franchise which recently changed its name from Accounting Information Development Services because of the bad publicity surrounding the acronym of its name.

The Accounting Centre has also opened a retail shop in central London in addition to the 22 franchised offices throughout Britain.

Euromonitor, a market research company, suggests that "there is considerable scope for expansion in every element of the commercial services market, demonstrating the growing importance to the economy of the service industries themselves."

INTERNATIONAL APPOINTMENTS

Marriott founder's son chosen as new chairman

BY WILLIAM HALL IN NEW YORK

MR J. W. (BILL) MARRIOTT, aged 53, has been appointed chairman of Marriott Corporation, the international lodging and food services chain, following the death of his father, Mr J. Willard Marriott, who had founded the company in 1927.

Mr Marriott, Jnr, has been president of the company since 1964 and has presided over its rapid growth—a period during which sales and earnings have grown at a compound annual rate of about 20 per cent a year. When he became president Marriott had sales of $84m (£59m) and 9,600 employees.

Today the company's annual sales are running over $4bn and the company is one of the 20 biggest employers in the U.S. with over 140,000 employees.

Mr Marriott, Jnr, is said to be a workaholic, like his father, who died in August at the age of 84, and regularly logs over 200,000 miles a year of air travel. He visits around 100 Marriott hotels a year and a similar number of his competitors' hotels.

Having graduated in finance from the University of Utah he joined Marriott in 1956, became a vice-president in 1959 and was elected a director in 1964. In November 1972 he took over as chief executive.

Marriott, which recently agreed to buy the Howard Johnson restaurant motel chain from Imperial Group of the UK, and opened New York's biggest hotel, operates in 47 states across the U.S. and 26 countries. It owns 146 full service hotels and resorts, a rapidly growing chain of moderate price hotels, more than 1,400 fast food restaurants and a large food service operation.

Chairman resigns at Motor-Columbus

By John Wicks in Zurich

MR MICHAEL KOHN has announced his resignation as board chairman of Motor-Columbus, the Swiss-based and civil engineering group.

Mr Kohn, the best-known spokesman of the Swiss energy sector, intends to follow "new professional priorities." As Motor-Columbus board member and chairman of two major power station operators, he will spend more time engaged with matters involving energy policy and the public acceptance of nuclear energy.

His successor at the head of the Motor-Columbus board will be *Dr Angelo Pozzi, who is to* remain the company's managing director.

Bank executive to head trade council

By Dai Hayward in Wellington

THE Australia-New Zealand Business Council has appointed Mr Bob McCay chairman. Mr McCay is the recently-appointed group chief executive of the Bank of New Zealand.

The council was formed in 1978 to develop bilateral trade opportunities between Australia and New Zealand. The development of the Closer Economic Relations (CER) agreement and the removal of trade barriers between the two countries has stimulated increased trade.

The third annual conference of the council attracted 200 business people from both countries. They discussed the challenges which the CER agreement presents to business in both countries. They also discussed some of the issues that should be tackled in the 1988 review of the CER agreement.

Hoffman-La Roche names chief financial officer

BY OUR ZURICH CORRESPONDENT

DR HENRI B. MEIER is next April to become chief financial officer of Hoffman-La Roche, the Swiss pharmaceuticals and chemicals company. He will succeed Mr Max Berger, who will go into retirement.

Dr Meier is at present a member of the executive committee of Handelsbank, the Zurich-based affiliate of the National Westminster Group. He is in charge of the Swiss bank's securities, foreign-exchange, money-market and treasury operations.

★

RALSTON PURINA, the U.S. wholesale baker and producer of livestock and poultry feed, has named Mr James Elsesser vice-president and chief financial officer, a new position.

Mr Elsesser, who joined Ralston Purina in March 1985, was vice-president and treasurer. Mr. Ronald Winney, assistant treasurer, will succeed him.

★

SEARS, ROEBUCK, the U.S. retailing and financial services group, has named Mr Edward A. Brennan chairman and chief executive officer. He will succeed Mr Edward Telling, who is retiring at the end of the year.

Mr Richard M. Jones, vice-chairman and chief financial officer, will succeed Mr Brennan as president while retaining the *title of chief financial officer*.

★

NATWEST AUSTRALIA BANK, the Australian arm of National Westminster Bank, has named Mr Jim Bain chairman. Mr Bain is chairman of partners of Bain and Company, the Australian broking firm, and chairman of the Sydney Stock Exchange.

Change of emphasis at Sperry Corp

SPERRY CORPORATION, the New York-based computer, aerospace and farm equipment company, has named Mr Joseph J. Kroger president and chief operating officer, a post that has been vacant since 1982.

Mr Kroger, who was an executive vice-president and president of Sperry's Information Systems Group, is now considered most likely to succeed Mr Gerald G. Probst as chairman, the company said.

The appointment is part of a series of changes, begun in 1984, to reshape the operating structure of the company from that of a financial holding company to an industrial operations company focusing on computers and other electronic systems.

UK

Senior Alliance & Leicester posts

THE ALLIANCE AND LEICESTER BUILDING SOCIETY, which began operations on October 1 following a merger of the Alliance Building Society and the Leicester Building Society, has made the following board and senior executive appointments: Mr John Baker, previously chairman of the Alliance Building Society, becomes chairman of the Society with Mr Gerald Aspell, previously chairman of the Leicester, as deputy chairman. Mr Roy Cox and Mr Scott Durward have both been appointed joint chief general manager and director. Mr Durward was previously chief general manager of the Leicester, while Mr Cox held the same position at the Alliance. Following Mr Cox's retirement at the end of 1985, Mr Durward will be sole chief general manager with Mr Cox remaining as a director. Mr Mervyn Griffiths becomes deputy chief general manager and secretary of the Society. He was previously deputy chief general manager of the Alliance. Four general manager appointments have also been announced: Mr Paul Clifton becomes general manager (management services); Mr Ian Hamilton becomes general manager (finance); Mr Tim Myers becomes general manager (development); and Mr Peter White becomes general manager (administration and treasury).

★

Mr Ron Green has been appointed manager, European corporate finance and administration by BERKELEY TECHNOLOGY, Jersey. He was divisional director finance and administration for RCA Corporation and manager, institutional business with Citicorp.

★

GRAPHIC INFORMATION SYSTEMS has appointed Mr Brian Gilbert as a non-executive director. He recently retired as chief executive of Low and Bonar. He is deputy chairman of "A. T." Mays, chairman of Elgin City Sawmills and deputy chairman of Richards.

★

Mr W. A. Sheret has been appointed chief executive at CDL 44 FOODS, Hartlepool, maker of the "Mr Chris" range of gateaux and dairy cream cakes. He has been a partner at the Middlesbrough firm of chartered accountants, Gilchrist, Tash, Wilson and Sansom since 1976.

★

RADOBANK NEDERLAND has appointed Mr H. G. Gentis, general manager; Mr David W. Stiff, operations manager, Mr Reer Bieren and Mr John Delves, treasury managers, and Mr Andre Baer, Mr Michael Barker and Ms Juliana Fennell, corporate banking managers in the London office.

★

At SPEIRS AND JEFFREY, stockbrokers, Mr James R. McCulloch, has been assumed as a partner and Mr W. T. Cameron, Mr D. Griffiths and Mr C. J. F. Watson have become associates.

★

Mr John Anderson, previously a regional director of ECGD in Birmingham, has been appointed a director of BAIN DAWES CREDIT.

★

Mr Paul Prescott has become marketing manager of BRITISH RAIL'S provincial sector — responsible for the commercial aspects of cross-country and local lines outside the south-east.

★

ELECTRONIC RENTALS GROUP has appointed Mr T. W. Long, managing director of its principal subsidiary, Visionhire, to the group board.

★

Mr Frank Oldham, general manager of DATADAY'S manufacturing plant at Biggleswade, has been promoted to production director.

★

Mr Richard May, formerly marketing manager for Ferguson, has been appointed product planning director of FIDELITY, part of Caparo Industries.

★

T-BAR INTERNATIONAL (EUROPE) has appointed as managing director Mr John Morley, previously European director of sales and marketing.

★

REED PUBLISHING has appointed Mr Phil Harris as chief executive of the Daily News Group, following the Reed agreement to acquire the Solihull Times. Mr C. J. Bullivant becomes deputy chief executive of the group and remains chief executive of the Daily News. Mr Harris was chairman of Berrows Newspaper Group.

★

Chartered accountants ARTHUR YOUNG has appointed Mr John Usher as director of marketing. He joined the firm as a partner on September 20 from Dunlop Slazenger International where he was chief executive, activewear division.

★

BRITISH RAIL ENGINEERING has appointed Mr Tony Roche as its European sales manager and Mr Mike Conway as BR business manager.

★

TECHNICOLOR has appointed Mr Richard Newborough as works director and Mr David Wright as sales and marketing *director*.

★

At TIME AND DATA SYSTEMS INTERNATIONAL, Mr M. J. L. Chandler is confirmed in his appointment as financial director and Mr P. G. Lawson joins the board as a non-executive director.

★

Mr G. E. D. M. Pearson has been appointed a director of the *UK division of* RICHARDS, LONGSTAFF (INSURANCE). Mr J. P. Lucas has been appointed a director of Richards, Longstaff (Pensions and Trustee); and Mr M. L. Cox has been appointed a director of Richards, Longstaff (Financial Services).

★

Following the purchase by London Midland Industrials of *Schnitzer Alloy Products of* Elizabeth, New Jersey, Mr Matthew Facey becomes president and is replaced as managing director of EVERBRIGHT FASTENERS by Mr Peter R. Orpin.

★

TRIDENT GENERAL INSURANCE has appointed the following as assistant general managers: Mr A. C. Baldwin, finance; Mr M. Firth, company secretary; Mr A. J. Howell, underwriting; Mr P. K. Johnson, administration, and Mr D. J. McDonald, marketing and development.

★

Mr Hans Van De Schaft has been elected to the board of DANIEL C. GRIFFITH & Co, Witham. He is managing director of Daniel C. Griffith (Holland) and a director of D. C. Griffith (Samplers and Analysts) USA Inc, a Griffith subsidiary in the U.S.

★

Mr Richard Whalley has been appointed chairman and chief executive of JOHN KING & CO (LEEDS). He has been joined on the board by Mr Roger Hall as financial director, and Mr Sam Rodgers as commercial director. Mr Whalley is chairman of Ewden Associates, and Eaton & Booth (Rolling Mills). Mr Hall was managing director of F. & M. Ducker. Mr Rodgers is also chairman of Precision Conveyor Systems. Three members of the King family remain on the board as non-executive directors: Mr J. E. Stanley King, Mr J. H. Howard King and Mr Graham E. S. King.

★

Mr G. S. Hill has been appointed commercial director of DAVIDSON RADCLIFFE.

★

Mr William M. Wilson, currently president and chief executive officer of Reed Stenhouse Companies, has been named chairman and chief executive officer of ALEXANDER & ALEXANDER INTERNATIONAL INC. A&A International Inc handles the worldwide retail insurance operations of A&A outside the U.S. Mr John C. Sienkiewicz continues as president and will become director of multinational business development. Mr John B. Devine, currently chairman and chief executive of Reed Stenhouse & Partners, will become the chief executive responsible for retail operations in the UK and Europe. From January 1 1986, the retail operations plan to begin trading in the UK as Alexander Stenhouse.

★

Mr Ian S. Durrell has been appointed president of STERLING SOFTWARE INTERNATIONAL, a new company created to amalgamate the international software product sales operations of Sterling Software Inc and Informatics General Corporation. He was formerly vice-president, international operations for Informatics, which was acquired by Dallas-based Sterling earlier this year. He will cnotinue to be based in London.

★

BARCLAYS MERCHANT BANK has appointed as corporate finance directors: Mr Peter Carter, Mr Chris Dowling and Mr John Standen; as corporate services director Ms Lynda Rouse; as projects director Mr Peter Noble; and as treasury director Mr Humphrey Percy. Mr Don Barrett, Mr Gerry Carey, Mr Elias Kesses, Mr Ben Kilpatrick, Mr Tony Wahlhaus and Mr Martin Weyer become assistant directors.

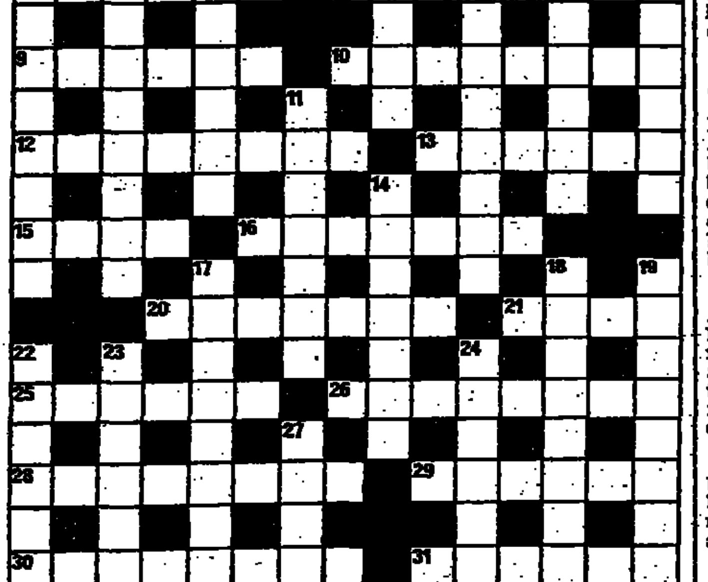
★

Mr Tom Weatherby has joined the board of BULMER & LUMB (HOLDINGS) as a non-executive director. He is chairman and chief executive of Whitecroft and a non executive director of Simon Engineering and Chamberlain Phipps.

★

Mr Timothy Walker, chairman of the World Wildlife Fund (UK), has joined the board of HTV. He is director of Henderson Administration Group and of Henderson Administration; deputy chairman of Henderson Unit Trust Management; chairman of New London Oil; and chairman of Credit and Commerce Life.

F.T. CROSSWORD PUZZLE No. 5,840



ACROSS

1 Could describe leaves (6)
4 A cuff-link almost done up is somewhat unreal (8)
9 In truth, is that so? (6)
10 S.A. flower for kind of tea, mate (8)
12 27s on Zambezi station (8)
13 27 this to be infatuated (2, 4)
15 Money from liar found out (4)
16 Clever person—he would be in, for example, carefree adventure (7)
20 27 this is not to reach (lacking?) (5, 2)
21 Answer seems wrongly placed. You could fluff it (4)
25 27 this is to nod, perhaps—as cover returns (6)
26 Don't worry about so much daring (8)
28 County date changed for one who's 25? (8)
29 Sort of iron mixture, that is (6)
30 Learnt G and S in variety? You need neck to do it (8)
31 Animal to search around (6)

DOWN

1 Sharp edge involving man shown on some stations (8)
2 Exceptionally smart R.A.C. gave public a lift (8)
3 Scottish town's leaders missing English poet (6)
5 27 this to slope down, but not at home (4)
6 It is continuously cutting (5-3)
7 27 this is to clash with (in football?) (4, 2)
8 New York male assembly could be non-professionals (6)
11 27s on U.S. border—once more returning to artist (7)
14 Gun-like delivery? (7)
17 Alarm tumble-down theatre near the north (8)
18 27 this to become identical when well-organised? (8)
19 27 on this to come out well in the extreme (4, 4)
22 A doctor in mask nearly produces containers of poison (6)
23 Current aircraft? (6)
24 Mysterious cases taken in by composer (6)
27 1 across across the ocean (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Allied Dunbar Assurance PLC
Allied Dunbar Ctr, Swindon SN1 1EL. 0793 28291

Fixed Int. Dep. Acc.	208.5	219.5	...	—
Equity Acc.	508.1	534.9	...	—
Property Acc.	305.9	322.0	...	—
Far East Acc.	100.3	105.6	...	—
Managed Cap.	269.3	283.5	...	—
Managed Acc.	426.6	449.1	...	—
O'seas Earnings Acc.	333.0	350.6	...	—
Gilt Edged Acc.	244.5	257.4	...	—
American Equity Acc.	287.8	303.0	...	—
American Man. Acc.	143.7	151.3	...	—
American Prop Acc.	120.8	127.2	...	—
Pen.F.I.Dep.Cap.	228.8	240.9	...	—
Pen.F.I.Dep.Acc.	344.3	362.5	...	—
Pen. Prop. Cap.	377.5	397.1	...	—
Pen. Prop. Acc.	617.8	650.4	...	—
Pen. Man. Cap.	526.0	553.7	...	—
Pen. Man. Acc.	873.6	919.6	...	—
Pen. Gilt Edg. Cap.	253.6	267.0	...	—
Pen. Gilt Edg. Acc.	344.2	362.4	...	—
Pen. Eq. Cap.	806.2	848.7	...	—
Pen. Eq. Acc.	1,014.9	1,068.4	...	—
Pen. Am. Eq Cap.	111.5	117.4	...	—
Pen. Am. Eq Acc.	118.3	124.6	...	—
Pen. Far East Cap.	111.8	117.7	...	—
Pen. Far East Acc.	118.6	124.9	...	—
Pen. B.S. Cap.	239.3	251.3	...	—
Pen. B.S. Acc.	350.5	369.0	...	—
Pen. D.A.F. Cap.	192.2	192.2	...	—
Pen. D.A.F. Acc.	250.9	250.9	...	—
Pen. Mortgage Cap	108.0	113.7	...	—
Pen. Mortgage Acc	114.6	120.7	...	—

Ambassador Life Ass. Co. Ltd.
80 Holdenhurst Rd, Bournemouth 0202 292345

Equity Fd Acc.	102.5	107.9	...	—
Equity Fd Cap.	96.9	102.0	...	—

Barclays Life Assur. Co. Ltd.
252 Romford Road, E7. 01-534 5544

Barclaybond	292.6	308.0	+0.4	—
Equity Accum.	337.4	355.3	+1.2	—
Do. Initial	305.3	321.4	+1.1	—
Gilt-edged Accum.	190.7	200.8	+0.3	—
Do. Initial	174.5	183.7	+0.3	—

Confederation Life Insurance Co.
50, Chancery Lane, WC2A 1HE. 01-242 0282

Life Funds

Managed Fund	487.5	513.1	...	—
Equity Fund	555.0	584.2	...	—
International Fund	181.6	191.1	...	—
Fixed Interest Fund	166.2	174.9	...	—
Property Fund	119.4	125.6	...	—
Index Linked Fund	109.4	115.1	...	—
Cash Deposit Fund	119.4	125.6	...	—
PIP Fund		1,472.4	...	—

Individual Pension Funds

Personal Pens Managed	286.9	302.0	...	—
Staffgard Managd Pen	286.9	302.0	...	—

Group Pension Funds

Group Mixed Pension		758.7	-4.5	—
Equity Pension		1195.4	-11.2	—
International Pension		235.3	-2.5	—
Fixed Interest Pension		629.5	+6.0	—
Property Pension		470.2	-1.1	—
Index Linked Pension		121.5	-0.9	—
Cash Deposit Pension		159.4	+0.6	—

Continental Life Insurance PLC
64/70 High St, Croydon CR0 9XN. 01-680 5225

Equity Acc.	232.9	245.2	...	—
Property Acc	229.8	241.9	...	—
Int Acc	179.0	188.5	...	—
Managed Acc.	213.2	224.5	...	—
Spec Sits Acc.	172.5	181.6	...	—
Investment Tst Acc.	102.3	107.7	...	—
Pen Int Acc.	187.2	197.1	...	—
Pen Prop Acc.	291.7	307.1	...	—
Pens Equity Acc.	343.3	361.4	...	—
Pen Mngd Acc	235.9	248.4	...	—
Pens F & C Man Acc.	94.8	99.8	...	—
Pens Inv Trust Acc.	121.9	128.4	...	—

Prices for other funds available on 01-377 8682.

Cornhill Insurance PLC
57 Ladymead, Guildford. 0483 68161

Equity Fd Oct 2	187.0	197.0	...	—
Fixed Int Oct 2	152.0	160.0	...	—
Man Growth Oct 2	404.0	425.5	...	—
Money Fd Oct 2	132.0	139.0	...	—
Cap Fd Oct 2		304.0	...	—

General Portfolio Life Ins. PLC
Crossbrook St., Cheshunt, Herts.

Portfolio Fd Acc	329.6	329.6
Portfolio Fd Int.	251.1	251.1
Portfolio Fd. Inv. A	329.5	346.9
UK Equity	146.6	154.9
Overseas Equity	109.9	115.7
Smaller Companies	97.9	103.2
Gilt Plus	109.4	115.1
Gilt Plus 88	105.8	111.4
Fixed Int Dep.	104.6	110.1
Managed	129.3	136.2
Instr Man.	115.8	122.0

For other prices please telephone

Gresham Unit Assurance Ltd.
2-6, Prince of Wales Rd., B'mouth.

Managed Fd	333.7	351.4
Money Fd.	174.0	183.2
Equity Fd.	279.3	294.1
Fixed Int. Fd.	134.7	141.8
Property Fd.	197.6	208.2
Managed Pen. Fd	328.6	346.2
Equity Pension Fd.	199.7	210.4
Fixed Int. Pen. Fd.	195.7	206.2
High Yield Pen. Fd.	197.7	208.3
Money Pension Fd.	154.7	162.1
Property Pension Fd.	154.6	162.8

Gresham/Framlington

American & Gen. Fd.	242.2	257.3
Capital Fd.	315.2	332.2
Income Fd.	275.4	290.2
Intl. Growth Fd.	251.3	264.8
Japan & Gen. Fd.	107.0	112.6
Recovery Fd.	188.6	198.7

Growth & Sec. Life Ass. Soc. Ltd.
47, London Fruit Exchange, E1 6EU

Flexible Finance		169.20
Landbank Secs.		66.95
Landbank Secs. Acc.	213.3	218.8
G. & S. Super Fd.		£12.5068

Guardian Royal Exchange
Royal Exchange, EC3.

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Fund NAV	$12.66	−0.03	—

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$13.34	+0.16	—

Inv. Adv.: M. & G. Inv. Mngt., Ltd., London.

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$10.99	−0.02	—
Dynamic Grth Fd	$9.34	−0.02	—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit	11.30	—	—	3-Mth
The Money Market Trust 63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fnd	11.66	8.74	12.95	6-mth
7-day Fnd	11.61	8.68	12.90	6-mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	11.68	8.75	12.96	6-Mth
7-day Fund	11.25	8.42	12.39	6-Mth
Dollar	6.75	—	6.86	6-Mth
Money Mngt. Acc.	11.00	8.22	12.27	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh, EH2 4DF 031-225 8484				
Full Service Chq Acc.	11.25	8.00	11.93	Qtr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc.	11.25	8.41	12.58	Qtr
Mth. Int. Chq.	11.125	8.32	12.56	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	11.00	8.22	12.18	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	11.0	8.25	12.32	Qtr
Britannia Investment Services Ltd. 29 Finsbury Circus, EC2M 5QL. 01-588 2777				
Cater Allen	11.13	8.32	12.34	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	11.23	8.29	12.38	Mth
U.S. Dollar	7.25	7.25	7.50	Mth
German Marks	4.25	4.25	4.33	Mth
Swiss Francs	3.50	3.50	3.55	Mth
Japanese Yen	5.00	5.00	5.00	Mth
Citibank Savings St Martins Hse, Hammersmith Grove 01-748 9251				
Money Market Plus	—	9.57	14.20	Mth
Co-operative Bank Cheque & Save 78-80 Cornhill EC3 01-626 6543.				
£500-£2,500	9.50	7.18	10.41	Qtr
£2,500 +	12.00	8.97	13.20	Qtr
Dartington & Co Ltd Dartington, Totnes, Devon TQ9 6JE. 0803 862271				
Money Mkt Acc.	11.00	8.22	12.27	Qtr
Edward Manson & Co Ltd 9 Henrietta Place W1M 9AG 01-631 3313				
Cheque Deposit Acc.	11.50	8.59	12.98	Mth
Henderson/Bank of Scotland 38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	11.00	8.22	12.18	Mth
Lloyds Bank PLC 71 Lombard St, London, EC3P 3BS. 01-626 1500				
HighIntCheque Account	11.25	8.25	12.32	Qtr
Lombard North Central PLC 17 Bruton St, W1A 3DH. 01-409 3434				
14-Day Notice	11.500	8.596	12.280	—
M & G/Kleinwort Benson 91-99 New London Rd, Chelmsford. 0245 51651				
R.I.C.A.	11.125	8.31	12.35	Daily
Midland Bank plc PO Box 2, Sheffield. 0742 20999 Ext 8655				
High Int Chq Acc.	10.70	8.00	11.92	Qtr
£10,000 +	11.17	8.35	12.47	Qtr
Provincial Trust (formerly Cheshire) 30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
Cheque Acc.	11.50	8.60	13.00	Mth
Royal Bank of Scotland plc 24 Lombard St, London EC3V 9BA 031-557 0201				
Premium Account	11.0	8.22	12.27	Qtr
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	10.85	8.10	12.05	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol. 0272 732241				
Demand Acc.	11.21	8.38	12.52	Qtr
Money Acc.	11.03	8.25	12.31	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc.	11.30	8.38	12.50	Mth
Over £10,000	11.35	8.48	12.80	Mth
Western Trust & Savings Limited The Moneycentre, Plymouth PL 1SE 0752 24141				
High Int Chq Acc.	11.65	8.69	12.83	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. [illegible] Suspended. [illegible] Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. [illegible] Yield column shows annualised rates of NAV increase. xd ex dividend.

OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Midland Bk.	35
BOC Grp.	27	NEI	10
BSR	8	Nat West Bk.	55
BTR	33	P & O Dfd	36
Babcock	13	Plessey	14
Barclays	33	Polly Peck	21
Beecham	30	Racal Elect.	15
Blue Circle	50	RHM	12
Boots	18	Rank Org Ord.	35
Bowaters	30	Reed Intnl	60
Brit Aerospace	32	Sears	11
Brit. Telecom	17	TI	35
Brown (J.)	3½	Tesco	24
Burton Ord	45	Thorn EMI	34
Cadburys	13	Trust Houses	12
Charter Cons.	18	Turner Newall	9½
Comm Union	23	Unilever	90
Courtaulds	13	Vickers	35
Debenhams	32	**Property**	
Distillers	36	Brit Land	14
FNFC	12	Cap Counties	20
Gen Accident	55	Land Secs.	26
Gen Electric	14	MEPC	26
Glaxo	100	Peachey	24
Grand Met	30	Samuel Props	15
GUS 'A'	70	**Oils**	
Guardian	60	Brist. Oil & Min.	3½
GKN	20	Brit Petroleum	45
Hanson Tst.	18	Burmah Oil	27
Hawker Sidd.	36	Charterhall	4
ICI	42	Premier	5
'Imps'	16	Shell	55
Jaguar	27	Tricentrol	18
Ladbroke	27	Ultramar	18
Legal & Gen	60	**Mines**	
Lex Service	24	Cons Gold	40
Lloyds Bank	35	Lonrho	12
Lucas Inds.	35	Rio T Zinc	50

A selection of Options traded is given on

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
22 May 22 Nov	Exch. 12¼pc 1985	99⅞	15.4	12.26	11.79
25 Aug 25 Feb	Exch. 11¼pc '86	100¼	19.7	11.72	10.80
11Oct 11Apr	Treas. 10pcCnv 1986	99¾xd	4.9	10.04	10.81
19 Nov 19 May	Treas 3pc 1986	96½	12.4	3.11	8.95
19 Nov 19 May	Exch. 10½pc Cv '86	99⅞	12.4	10.53	10.95
12Dec 12Jun	Treas 12pc 1986	100⅝	7.5	11.92	10.81
10 Jan 10 Jul	Treas 8¾pc 1984-86‡‡	98⅝	3.6	8.63	10.53
29 Apr 29 Oct	Exch. 14pc 1986	103⅛xd	23.9	13.55	10.66
21 May 21 Nov	Exch. 2½pc 1986	94⅛	15.4	2.65	7.80
22Jul 22Jan	Exch. 13¼pc 1987	103	17.6	12.86	10.60
10 Aug 10 Feb	Treas 10¼pcCv '87	99¾	4.7	10.29	10.53
24Aug 24Feb	Exch 2½pc 1987	93⅛	18.7	2.68	7.83
6Oct 6Apr	Exch. 10½pc 1987	100	2.9	10.50	10.51
1 Nov 1 May	Funding 6½pc '85-87‡‡	95⅛xd	25.9	6.83	9.94
12Dec 12Jne	Treas. 10pc 1987	99⅛	7.5	10.10	10.58
14Jan 14Jly	Treas 3pc 1987	91⅝	7.6	3.27	8.17
3May 3Nov	Treas. 12pc 1987	102½xd	27.3	11.71	10.65
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	94⅞	19.6	8.17	10.29
10Nov 10May	Exch 10½pc '88	100xd	4.10	10.50	10.54
14Dec 14Jne	Treas 9¾pc Cv '88	98	8.5	9.95	10.60
1Jan 1Jul	Transport 3pc '78-88	87⅛	28.5	3.43	8.33
25 Apr 25 Oct	Treas. 9½pc '88	97⅛xd	19.3	9.76	10.57

AMERICANS—Cont.

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
F.My.Au.N.	Amer Medical Int $1	11½xd	8.7	72c	—	4.5
Fb My Ag Nv	American T. & T. $1	14⅞	26.3	$1.20	—	5.8
My Au N F	Ameritech $1	63⅞	—	$6.00	—	7.0
—	Amfac	16½	16.11	$1.44	—	6.3
—	♥AmTech	20⅝p	—	—	—	—
Fb My Au N	BankAmerica $1 9/16	945p	12.8	80c	—	6.1
Ap Jly Oc Jan	Bankers N.Y $10	41¼xd	28.3	$2.70	—	4.7
Ja Ap Jy Oct	BASIX Corp.	980pxd	13.9	12c	—	1.7
My Au N Fb	Bell Atlantic $1	60¼	27.3	$6.80	—	8.1
Fb My Au N	Bellsouth $1	27⅞	25.6	$2.80	—	7.3
Mar Jun S D	♥Beth Steel $8	12	4.11	40c	—	2.4
Oc Ja Ap Jy	Bowater Inc.	15¼	4.9	72c	—	3.4
Ja Ap Jly O	Brown'g-Fer. 16⅔c	34¼xd	17.9	$1.08	—	2.2
F My Au N	Brunswick Corpn.‖	25⅝	22.7	$1.00	—	2.8
Jan Ap Jly O	CPC Intnl. 25c	32⅝xd	25.9	$2.20	—	4.9
Mr Ju Se De	CSX Corp U.S.$1.00	17⅝	21.5	$1.04	—	4.2
Mar. June S.D.	CalFed Inc $1.00	11⅛	12.8	32c	—	2.0
Oc Ja Ap Jy	Campbell Soup 30c	29⅛	3.7	$5.00	—	12.3
F My Au N	Caterpillar Tractor‖	25⅝xd	17.7	50c	—	1.4
—	Cenergy Corp. 25c	622p	—	4c	—	0.5
Fb My Ag Nv	Chase M'htn $12.5	35xd	25.4	$3.80	—	7.8
Ap Jy Oc Ja	Chemical New York	25¼	12.3	$2.48	—	7.1
Mar Jun S D	Chesebrough-Pond's $1	24xd	29.8	$1.92	—	5.8
Mar Jun S D	Chrysler $6¼	25¼	12.6	$1.00	—	2.8
My Au N F	Citicorp $4	29⅞xd	24.9	$2.26	—	5.4
—	CityFed Fin. Corp.	732p	—	40c	—	3.9
F My Au N	Colgate-P. $1	19⅛	22.7	$1.40	—	5.3
Mr.Jn.Se.De.	Colt Inds. $1	41⅝	10.9	$2.50	—	4.3
F May Au N	Cont Illinois Hldgs $1	51p	27.3	—	—	—
—	♥Corporate Data Scnce.	59⅞p	—	—	—	—
Dec. Aug	Crown Zell $5	25¼xd	5.6	$1.00	—	2.8
—	Cullinet Sftwr $0.1	10⅞	—	—	—	—
—	Damson Oil 40c	305p	—	—	—	—
Mar Jun S D	Dana Corp. $1	16½xd	23.8	$1.28	—	5.6
—	Data General	26¼	—	—	—	—
—	♥Derma-Lock Medcl	18p	—	—	—	—
M J S D	Dun & Bradstreet $1	51⅞	15.8	$1.88	—	2.6
F My Au N	Eaton Corpn. 50c	36⅞	1.5	$1.20	—	2.3
Mar Jun S D	♥Exxon‖	36⅝	7.11	$3.40	—	6.7
MrJnSepDec	FPL Group $0.01	16½	27.8	‖$1.88	—	8.2
F May Au N	Fin. Corpn. Amer. 50c	392p	25.6	—	—	—
Jan Apr Jly O	First Chicago $5	14⅛	3.9	$1.32	—	6.6
Jan Apr Jly O	Fluor Corpn. 62½c	18¼xd	26.9	40c	—	2.8

LONDON SHARE SERVICE

BUILDING, TIMBER, ROADS—Cont.

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan. Aug.	BPB Inds. 50p	287	1.7	7.7	3.0	3.8	11.4
Feb. Aug.	Baggeridge Brick	304	1.7	6.25	3.7	2.9	13.1
Jan. June	Bailey (Ben) 10p	25	29.4	0.25	—	1.4	—
—	Baldwin (H. J.) 10p	40	11'80	—	—	—	15.7
May Nov.	Barratt Dev. 10p	180xd	30.9	7.62	♦	10.1	♦
Jan. July	Bellway	126	13.5	7.0	2.0	7.9	8.4
May Oct.	Benford M. 10p	64	16.9	3.75	0.7	8.4	34.0
Feb. Aug.	♥Berkeley Group	190	1.7	d3.6	3.6	2.7	14.5
Mar. Aug.	Bett Bros. 20p	74	15.7	d3.1	1.6	6.0	13.0
June Oct.	Blockleys 20p	875	16.9	†21.0	3.2	3.4	11.5
Oct July	Blue Circle £1	520	2.9	20.0	2.5	5.5	(8.2)
Oct. May	Breedon Lime	238	16.9	18.9	1.1	5.3	23.3
Jan. Aug.	Brickhouse Dudley 10p	70	1.7	3.45	1.7	7.0	11.7
Feb. Oct.	BB & EA	150	12.8	2.5	2.6	2.4	22.2
Jan. June	British Dredging	72	15.4	2.5	2.1	5.0	13.1
Jan. July	Brownlee	68	17.6	4.0	2.2	8.4	7.6
Nov. May	Bryant Hldgs.	77	15.4	†3.0	3.0	5.6	8.3
Aug. Jan.	Burnett & Hallam	20¢	26.11	8.75	0.8	62.5	3.0
Jan. July	Cakebread Rby A 10p	50	3.6	3.1	1.9	9.0	8.5
Oct. May	Cement-Roadstone	74	16.9	†Q1 6.62c	3.0	4.6	10.6
—	♥Chesominster Grp.	32	—	—	—	—	—
Oct. May	Conder Group	58	2.9	1.5	1.8	3.7	19.7
October	Copson (F.) 5p	36	16.9	1.5	1.1	6.2	20.4
July Oct.	Costain Group	452	16.9	†15.0	2.9	4.7	8.5
Sept. Apr.	Countryside Props	314	15.7	†5.04	5.8	2.3	7.9
Oct. April	Crouch (D.) 20p	112	16.9	†5.39	1.4	6.9	14.4

DRAPERY & STORES—Cont.

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
July Dec	Owen Owen	415	29.4	†3.8	4.3	1.3	22.6
October	‡Pepe Group 10p	82	2.9	d3.0	2.6	5.2	10.6
Jan June	Peters Stores 10p	66	13.5	†d2.0	—	‡	—
Feb Oct	Preedy (Alfred)	114	29.7	3.87	1.4	4.9	21.6
Jan Aug	‡Promotional Hogs 10p	146	—	b1.8	3.1	1.8	26.2
December	Ramar Texts. 5p	25½xd	30.9	†1.5	2.2	8.4	(6.3)
Mar Oct	Ratners 10p	105	12.8	2.5	1.3	3.5	31.9
July	Raybeck 10p	33	13.5	0.25	—	1.1	—
July Dec.	Reed Austin 'A' N/V	143	29.4	4.5	2.4	4.5	15.7
—	S&U Stores 12½p	23	27'6	—	—	—	19.1
Jan July	Do. 31½pcPf. 12½p	37	17.6	3.94	—	15.2	—
Jan July	Samuel (H.)	160	17.6	4.17	1.0	3.7	41.5
Jan July	Do. 'A'	76	17.6	4.17	1.0	7.8	19.7
Dec. July	Sears	112	3.6	3.0	2.5	3.8	14.3
December	Selincourt 5p	21½	29.10	40.03	61.0	0.2	10.1
June	‡Share Drug 10p	256	29.4	d1.7	3.0	1.0	43.2
June Jan	Simpson (S.) "A"	260	13.5	4.75	3.2	2.6	15.4
April	Smith (W. H.) A 50p	250	2.9	5.0	2.7	2.9	18.3
June Oct	Stanley (A. G.) 5p	65	2.9	2.5	1.4	5.5	18.2
Feb. Aug.	Stead & Sim 'A'	86	1.7	h3.3	1.5	5.5	17.2
Aug Feb	Stemberg 10p	83	1.7	2.2	2.3	3.8	14.2
Mar. Oct.	Stirling Group 20p	87½	28.1	1.05	6.3	1.7	13.2
—	Stormgard 10p	19½	—	—	—	—	31.0
—	Sumrie 20p	36	6'83	—	—	—	—
June Dec	Superdrug Strs. 10p	440xd	30.9	14.2	4.2	1.4	22.1
May	‡T & S Stores 5p	163	15.4	g2.63	3.9	2.3	26.6

ENGINEERING—Continued

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Feb July	BM Group 10p	125	11.3	†1.1	2.4	1.3	45.8
Oct May	Babcock Intl.	135	2.9	†8.0	1.7	8.5	(8.4)
—	Bailey (C. H.)	14½	3'80	—	—	—	—
Feb. Aug.	Baker Perkins 50p	194	1.7	†6.75	2.6	5.0	10.6
May Nov.	Bamro Inds. 20p	135	16.9	N5.5	2.6	5.8	9.1
—	Barbican Hldgs 1p	2¼	4'80	—	—	—	—
May Dec.	Beauford 10p	93	15.4	†4.5	2.5	7.0	8.3
June	Belgrave Hldgs.	90	25.3	4.2	3.5	6.7	6.2
Apr Oct	Bevan (D.F.) 5p	23½	12.8	1.25	3.1	7.6	5.2
Apr Sept	Birmid Qualcast	85	15.7	†3.25	1.9	5.5	6.9
Jan. Sept.	Birmingham Mint	122	15.7	t5.75	1.8	6.7	10.6
Mr Ju Se De	Black & Decker $0.50	£12⅝	10.9	Q64c	—	3.7	—
—	Blackwood Hodge	34	11'82	—	—	—	9.1
—	Boulton Wm 10p	8½	11'83	—	—	—	—
Jan Aug	Braithwaite £1	118	1.7	9.1	0.3	11.0	—
Feb Oct	Brasway 10p	68	14.1	2.0	3.6	4.3	9.3
—	Bristol Ch.Ship10p	2½	10'80	—	—	—	6.0
Jan July	Brit. Steam 20p	133	1.7	6.25	2.3	6.7	9.3
Feb. Nov.	Bromsgrove Inds 5p	33	29.7	1.0	3.1	4.3	(8.3)
Nov May	Brown Eng. 10p	15	25.3	0.5	—	4.8	—
July	Brooke Tool	27	3.6	1.0	3.8	5.3	6.0
For Brown & Tawse see Industrials							
—	Brown (John)	27	8'82	—	—	—	—
Sept. Mar.	Bullough 20p	213	12.8	†7.1	2.5	4.8	12.1
May Dec.	Burgess Products	142	15.4	u2.0	9.6	2.0	25.2
April	Camford Eng.	47	25.2	1.05	4.2	3.2	8.0
—	♥Camseal Inc.	10	—	—	—	—	—
Feb Sept	Carclo Eng.	250	15.7	12.0	3.2	6.9	6.0
May Nov	Cartwright R. 10p	165	15.4	†6.5	2.1	5.6	10.7
Jan Aug	Castings 10p	45	3.6	h2.5	2.6	7.9	6.8
July Dec	Chamberlin & Hill	64	3.6	3.5	3.0	7.8	6.1
Feb. July	Chemring 5p	500	17.6	†10.0	3.8	2.9	13.1

HOTELS—Continued

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Apr Sept	Stakis 10p	63	29.7	†h1.0	2.8	2.3	18.7
Apr Oct	Trusthouse Forte	141	12.8	†4.74	1.7	4.8	15.1

INDUSTRIALS (Miscel.)

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Mar. Oct.	AAH	160	2.9	6.79	1.8	6.1	12.7
June	AGA AB K25	£11½	20.6	Q7%	2.4	1.4	15.4
Apr Oct	AGB Research 10p	210	2.9	8.5	♦	4.4	♦
Oct Apr	AIM 10p	106	12.8	d5.75	1.5	7.7	12.1
Aug Apr	‡Aaronsee Group	52	29.7	2.8	3.1	7.2	5.9
Oct. Apr.	Aaronson Bros. 10p	93	2.9	4.2	1.9	6.5	10.8
—	Abbey	90	9'83	—	—	—	26.7
—	‡Abbeycrest 10p	96	—	u2.5	2.5	3.7	15.2
—	Aberfoyle Hldgs. 8p	44	—	—	—	—	—
—	Alexanders Wtwear 10p	170	—	bg4.5	2.3	3.8	16.0
May	Alfa-Laval AB'B'SK50	£18	10.5	Q16%	1.0	4.5	22.6
—	Allied Plant 5p	19	7'82	—	—	—	17.8
Nov May	Amari	131	29.4	d6.0	8.3	6.7	8.7
Jan July	Amber Ind. 10p	115	17.6	6.0	2.3	7.5	8.3
December	Amer Group FM20	£10⅝	21.12	Q15%	1.0	2.5	39.6
—	Ang. African Fin 7½p	32	1'83	—	—	—	5.0
May Oct	Anglo Nordic	32	15.7	1.4	3.2	6.2	6.2
August	Appledore (A & P) 10p	318	29.7	g4.57	2.3	2.3	29.4
Jan. Aug	Arenson 10p	42	10'81	—	—	—	♦
November	Armour Trust 10p	17½	26.11	0.18	6.0	1.5	11.9
—	Ashley Ind. Tst.	34	2'83	—	—	—	22.8
—	Assoc. Br. Eng 1p	4	1'83	—	—	—	—
Mar Sept.	Do. 8pcCumCvRdPf	180	—	8%	—	6.3	—
May Nov	Assoc Brit Ports	365	16.9	†8.5	0.4	3.3	—
March	‡Assoc. Energy 5p	27	11.2	1.0	3.6	5.3	7.4
Jan Aug	Assoc Heat Services	393	29.7	11.0	1.9	4.0	19.1
May Nov	‡Assoc Steel Dvst £1	183	16.9	u8.0	2.1	6.2	9.3
Nov May	Ault'y & Madeley 20p	134	16.9	†6.05	2.9	6.4	8.9

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo-Dominion	38	—	—	—	—
—		Anglo Utd Dev	37	—	bQ2.05	2.1	4.1
		♥Centennial Min'ls	147		—	—	—
		♥Colby Res Corp	55		—	—	—
Aug.	Feb.	Cons. Murch. 10c	300	15.7	♥Q86½c	3.9	7.5
—		✠Eonex Int. Ir10p	38	—	—	—	—
Apr	Oct	Hampton Areas 10p	143	29.7	3.75	0.9	3.5
—		♥Highwood Res	160	—	—	—	—
May	Aug	Homestake Mining $1	£18	22.5	Q20c	—	0.8
—		♥McFinley Red Lake	190	—	—	—	—
—		♥Musto Explorations	250	—	—	—	—
—		♥New Sabina Res C$1	38	—	—	—	—
—		Northgate C$1	222	9.77	—	—	—
Jan.	July	RTZ	558	13.5	†20.0	2.8	5.3
Jan	July	Do. 9¼pcLn 95-2000	£120½	13.5	Q9¼%	14.0	8.1
—		♥Tara Expln $1	936	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed, dealings permitted under Rule 535(4)(a).
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ¶ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- ✠ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ✠ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	98xd		Arnotts	200	
Craig & Rose £1	780		CPI Hldgs.	58	
Finlay Pkg. 5p	51xd		Carrol Inds	127	+2
Higsons Brew	235		Dublin Gas	75	
Holt (Jos) 25p	730	+10	Hall (R. & H.)	60½	+½
IoM Stm. £1	87		Heiton Hldgs.	21	
IRISH			Irish Ropes	45	
Fund 11¼% 1988	£101½xd		Jacob (W & R.)	91	
Nat. 9¼% 84/89	£97½		Unidare	107	
Fin. 13% 97/02	£109	+½			

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This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

CONSTRUCTION CONTRACTS

Liverpool dock to house northern Tate gallery

Work on preparing the Tate Gallery's second home is included in contracts, together worth about £13.5m, awarded to **TAMAC CONSTRUCTION.** In Liverpool the company has a £3.1m contract for structural refurbishment and alterations to part of Block C, in the Albert Dock development, which will house the "Tate of the North." The client is the Merseyside Development Corporation. Work has started and is scheduled for completion in 15 months. Another refurbishment project, valued at £2.3m, is an 18-month management contract for work at the town hall at Reading, for the borough council. In the West Midlands the company has a £3.2m contract for fitting-out a Carrefour supermarket at Brierley Hill, for the Dee Corporation.

Other contracts include minor civil engineering and building works at Billingham, for ICI (£500,000), and refurbishing a factory at Burnley, Lancashire, for Michelin Tyre (£223,000). A number of contracts have also been awarded for work on improving, modernising and repairing local authority homes—101 homes at Scotlands, Wolverhampton, for Wolverhampton Borough Council (£1.5m); 121 homes at Blakenhall and Rye-croft, Walsall, for Walsall Borough Council (£1.2m); 64 homes in Darwin Drive, Cambridge, for Cambridge City Council (£1.1m); 29 homes at Cowsley, Derby, for Derby City Council (£350,000); and 38 homes at Roseworth, Stockton-on-Tees, for Stockton-on-Tees Borough Council (£297,000).

Hospital job for Rush and Tompkins

RUSH & TOMPKINS has secured six building contracts worth more than £6m. The largest, valued at £1.57m, is with South Tees Health Authority for an acute wards block at Middlesbrough General Hospital. R&T's Stockton office has started work on the two storey 32,000 sq ft structure which is scheduled for completion in March 1987.

In Wimbledon, a £1.47m order has been placed by Waterglade Developments for a four storey office building and a three storey block of five flats. The 22,000 sq ft office building has a reinforced concrete frame and features a basement car park. Completion is scheduled for June next year.

The Coventry office is about to start a £1.1m 10 month contract in Leicester for the Territorial Auxiliary & Volunteer Reserve. The project includes construction of a 19,000 sq ft steel frame complex housing a rifle range, drill hall and garage and refurbishment of an adjoining 19th century building to form offices, lectures theatres and mess facilities.

A £800,000 refurbishment is being undertaken by R&T's Preston office at Chester, involving renovation and enlargement of an existing 18th century house at Dale Army Camp to form an Officers' Mess.

In Andover, Hampshire, the Westbury office has started a £700,000 contract with Conder Projects for a three storey 54,000 sq ft office block, and in Stockton, a £500,000 contract with Barclays Bank is now underway to refurbish the interior of the Barclaycard Centre.

*

Putting new heart into the New Forest village of Marchwood are developers **GEOFFREY OSBORNE (DEVELOPMENTS)**, which has started building work on the £1.25m village centre. Awarded within the Osborne Group to its own building division, the £547,000 building contract is scheduled for completion by Easter 1986, with priority being given to a hand over of the 6,000-sq-ft supermarket, let to the convenience store chain Sperrings, at the beginning of the New Year. Situated alongside the village school, the centre project comprising 50,000 sq ft of commercial and residential development, includes a doctor's surgery, two blocks of residential flats and a public house to be developed by Eldridge & Pope. The scheme is to be built in traditional style with rustic coloured brick, clock tower atop the convenience store, covered walkways, and paved parking spaces.

*

DELOITTES HASKINS AND SELLS management consultancy division has been appointed by the Overseas Development Administration, to carry out a major port management study at the Kenya coast.

Development in Hong Kong for Marples

MARPLES INTERNATIONAL has been awarded two contracts worth a total of £5½m, to construct roads, drainage, subways, footpaths and cycletracks, and to carry out site clearance and landscaping, at Shek Wu Hui on the Chinese border in the New Territories, Hong Kong. Work on the first has started, and is scheduled to be completed in June 1986. The second contract, which includes site clearance of 16 hectares of land followed by the construction of 1.4 km of roads, will start late October for completion in June 1987.

*

Quarry and asphalt plant manufacturers **Braham Millar Co.** has won an order from Pioneer Aggregates for a stone crushing and screening plant worth over £1m. It will be installed at Pioneer's Patley Bridge quarry near Harrogate, which is being modernised. Braham Millar has won several other orders including one for its latest Bramatic 200s fixed asphalt plant for Anderson Asphalt, Hong Kong, worth in the region of £500,000.

*

NORWEST HOLST CONSTRUCTION has begun work on a £2.5m contract to build a factory in Huyton, Liverpool. The contract was awarded by English Estates in conjunction with BICC. The building will be used by BICC for the manufacture of fibre-optics. The construction schedule is very tight with the 8,000 sq metre factory and outside hardstanding of a similar area being built in 37 weeks. Construction on mass concrete foundations is of steel stanchions and lattice girders, with proprietory coated insulated steel cladding to walls and roof and a protective blockwork wall internally. Offices and services areas will be separated from the main factory areas by blockwork walls. External works comprise dual drainage system, drum yard, access road, carpark, security fence, external service mains and landscaping. The contract is due for completion May 1986.

Tilbury wins £8m batch

TILBURY'S latest batch of contracts total around £8m. The largest, worth just short of £3m, is for Satman Developments and involves re-roofing, renovating and replacing windows in 11 blocks of flats at the Woodberry Down Estate in North London. The project is expected to take two years to complete. Twyford is also starting work on the complete refurbishment and re-roofing of 50 houses at Sandy's Lane, Basingstoke, on behalf of the National Coal Board. The £1.1m contract is programmed over 60 weeks.

Another £1m contract has been won by the Belvedere office from Eastbourne Waterworks. Known as the Waller Haven scheme, this involves the demolition of existing water treatment works at Hazard Green, Ninefield, East Sussex, followed by the construction of river intake and pumping station with concrete piled cofferdam and vernacular superstructure to the pumping station. The contract period is 60 weeks.

A £760,000 job at Parkstone Quay, Harwich, has been won by the Ipswich office from Sealink Harbours. Work involves paving, drainage and services for a new car park and trailer park and is expected to last 22 weeks. Bridge-work is being carried out for British Rail at Diss for a total of £485,000. Tilbury is also building a buried reinforced concrete tank and reinforced concrete pumping station costing £730,000 for the Thames Water Authority. Two further waterworks contracts are being undertaken for the Thames Water Authority at Basingstoke and for Hertsmere Borough Council at Potters Bar, worth £326,000 and £324,000 respectively.

Refurbishment orders for Mansell

MANSELL has been awarded contracts totalling nearly £8m for refurbishment, new build, repair and maintenance. These include a three-storey building of 3,000 cu metres for workshop units and studios at Scrutton Street, EC2, under a £1.3m contract for the Church Commission. Work has started, for completion in November 1986. A £1.1m contract is for the Institute of Neurology in Hunter Street, WC1, involving refurbishment of the basement and five floors including installation of heating and ventilation equipment. Work is due to complete in 30 weeks. A two-phase £1m contract for TSB at 115 Regent Street, W1, involves refurbishment of the ground floor as a banking hall, first floor as offices and basement for vaults and plant. Roof and external renovation work will also be carried out. The remaining five floors will be refurbished as offices in phase 2. Phase 1 should finish by the end of November.

Airbus wing factory at Filton

British Aerospace a Filton has selected a local contractor to build its 96,000 sq ft Airbus wing completion centre. The project is to be carried out on a design and build basis by **C H PEARCE & SONS C(ONTRACTORS)** whose head office is within two miles of the British Aerospace complex. The contract is worth more than £3.5m. British Aerospace expect to spend a further £1m on ancillary work, most of which will also be carried out by local companies. The new complex will house the equipping, completion and testing centre for Airbus A320 wings.

Partly completed A320 wing structures from the Chester factory of British Aerospace, will pass down a seven-stage production line in the new facility before being flown in a Super Guppy freighter aircraft to the assembly plant in Toulouse.

The contract period for the new building has been reduced to 40 weeks. The facility will comprise the main assembly area which have a clear span structure 150 ft wide by 350 ft long, served by two overhead cranes. There will be a two-storey office area about 200 ft long by 40 ft wide and a two-storey support facility about 100 ft by 100 ft.

WILCON CONSTRUCTION, part of Wilson (Connolly) Holdings, has won a £660,000 contract for work at the Three Shires Independent Hospital in Cliftonville, Northampton. The contract, to be completed in September 1986, will provide a two-storey medical consultancy block, with a two-storey carridor to the Three Shires Hospital. The unit contains five consultancy suites, staff amenities and a further 12 single bed wards.

Bypass work for Nuttall

EDMUND NUTTALL is upgrading the Yiewsley Bypass for the London Borough of Hillingdon. Valued at about £7.5m, completion is set for the end of 1987. The second stage of the Stockley Park project for Trust Securities Holdings involves roadworks, drainage and steel sheet piled retaining walls. The £1.8m contract is for completion in 32 weeks.

*

INVICTA MOTORS of Lower Bridge Street, Canterbury, is to have workshop and office accommodation built at 55-61 Sturry Road with **WILTSHIER CANTERBURY** the main contractor. The contract, worth £335,680, will take 26 weeks and is due for completion in March, 1986. Building and refurbishment contracts worth a total of £1.39m, have been won by **MODAIRE**, the Bedford-based construction group. Clients include the Property Services Agency and local authorities in Bedford, Havering, Hertsmere, Peterborough and Welwyn. The group's Modaire Home Extensions company has signed contracts with householders to the value of £250,000 sinceits formation in May.

FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

BOARD MEETINGS—
Finals:
Close Bros
Ferry Pickering
Leisure Invs

New Zealand (Govt of) Fltg Rate Nts 1987 $495.62
Royal Bank of Canada Fltg Rate Debs 1987 $244.64
Sparbankernas Bank Sub Rate Fltg Nts 1990 $250.99
United Packaging 2p

[illegible]

Contracts and Tenders

Company Notices

Holidays & Travel

Public Notices

Clubs

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	Oct. 4	Oct. 3	Oct. 2	Oct. 1	Sept. 30	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Industrials	1328.74	1333.11	1333.87	1340.96	1328.63	1359.54	1184.96	1359.54	41.22
Home Bnds	79.64	79.78	79.70	79.70	79.60	80.65	72.27	—	—
Transport	647.24	649.11	647.24	653.68	640.57	702.6	553.03	702.6	12.32
Utilities	155.16	154.19	153.79	152.13	150.29	158.91	146.54	158.91	10.5
TradingVol 000's	101,17	127,546	147,350	130,240	103,620	—	—	—	—

Day's High 1335.01 (1345.43) Low 1321.12 (1323.81)

	Sept. 26	Sep. 20	Sep. 13	Year ago (approx)
Industrial dividend yield %	4.66	4.74	4.71	4.78

STANDARD AND POORS

	Oct. 4	Oct. 3	Oct. 2	Oct. 1	Sept. 30	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Industrials	204.62	206.15	205.85	207.20	203.67	215.83	186.34	215.83	3.62
Composite	183.22	184.36	184.06	185.07	182.08	195.65	163.68	195.65	4.40

	Sept. 25	Sept. 18	Sept. 11	Year ago (approx)
Industrial div. yield	3.86	3.86	3.79	3.95
Industrial P/E ratio	12.13	12.20	12.41	10.79
Long Gov. Bond yield	10.51	10.66	10.73	12.28

N.Y.S.E. ALL COMMON

Oct. 4	Oct. 3	Oct. 2	Oct. 1	1985 High	1985 Low
105.96	106.56	106.36	108.71	113.49 (17/7)	94.60 (4/1)

Rises and Falls	Oct. 4	Oct. 3	Oct. 2
Issues Traded	1,949	1,973	1,998
Rises	626	777	755
Falls	844	703	766
Unchanged	479	493	477
New Highs	26	28	52
New Lows	28	36	27

TORONTO

	Oct. 4	Oct. 3	Oct. 2	Oct. 1	1985 High	1985 Low
Metals & Minerals	1861.58	1894.5	1900.8	1985.2	2190.07 (15/2)	1839.3 (8/1)
Composite	2848.52	2868.0	2846.0	2856.4	2819.9 (30/8)	2346.5 (8/1)
MONTREAL Portfolio	128.82	129.58	128.82	128.13	139.33 (19/7)	117.00 (4/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Beatrice	5,529,300	39¾	+ ⅞
Texas Oil Gas	3,941,100	18	− ½
Gould	2,607,100	37	+2½
Burroughs	1,691,300	55⅝	−7⅜
Revlon	1,497,500	53¾	− ½
Phillips Pet	1,214,200	12⅝	+ ⅛
P Svc Col	1,205,700	20½	− $
Coastal Corpn	1,149,000	29½	− ⅛
Avon Products	1,055,000	24¾	+ ⅞
Rorer-Group	1,036,100	46⅞	+3⅞

	Oct. 4	Oct. 3	Oct. 2	Oct. 1	1985 High	1985 Low
AUSTRALIA All Ord. (1/1/80)	1011.9	1006.5	1008.9	994.5	1008.9 (2/10)	715.5 (7/1)
Metals & Minls. (1/1/80)	530.5	517.4	517.7	513.0	585.9 (20/5)	382.5 (7/1)
AUSTRIA Credit Aktien (2/1/62)	100.55	101.08	100.46	99.82	105.73 (17/8)	58.21 (24/1)
BELGIUM Brussels SE (1/1/80)	2514.20	2498.67	2498.28	2479.58	2509.40 (20/9)	2090.7 (18/1)
DENMARK Copenhagen SE (3/1/83)	222.27	222.27	219.77	218.52	222.27 (3/10)	158.44 (8/1)
FRANCE CAC General (31/12/82)	205.9	208.5	210.1	210.2	236.1 (31/5)	180.9 (3/1)
Ind Tendance (28/12/84)	115.2	116.9	118.4	118.3	139.4 (31/5)	100.1 (3/1)
GERMANY FAZ Aktien (31/12/58)	541.02	541.70	541.20	537.00	541.70 (3/10)	382.89 (3/1)
Commerzbank (1/12/53)	1582.2	1582.2	1592.0	1581.3	1592.2 (3/10)	1111.8 (3/1)
HONG KONG Hang Seng Bank (31/7/64)	1587.44	1581.07	1553.13	1520.81	1711.51 (10/6)	1220.74 (2/1)
ITALY Banca Comm Ital. (1972)	411.23	410.04	403.27	403.82	410.04 (3/10)	220.66 (2/1)
JAPAN** Nikkei-Dow (16/5/49)	12715.85	12700.9	12720.5	12816.6	13040.1 (6/7)	11545.2 (5/1)
Tokyo SE New (4/1/68)	1026.33	1024.5	1026.37	1026.47	1057.55 (10/7)	916.95 (4/1)
NETHERLANDS ANP-CBS General (1970)	212.4	214.4	215.4	214.7	225.0 (3.9)	185.8 (3/1)
ANP-CBS Indust (1970)	187.9	189.1	190.8	189.9	194.1 (3.9)	147.9 (3/1)
NORWAY Oslo SE (4/1/83)	371.88	375.42	375.51	369.15	375.51 (2/10)	238.18 (2/1)
SINGAPORE Straits Times (1966)	787.40	785.72	788.74	789.52	852.81 (7/3)	717.80 (15/7)
SOUTH AFRICA JSE Gold (28/9/78)	—	1028.7	1059.9	1067.8	1140.8 (16/4)	829.3 (5/8)
JSE Indust (28/9/78)	—	967.1	970.1	967.9	1036.8 (16/7)	787.1 (7/5)
SPAIN Madrid SE (28/12/84)	114.74	115.82	112.72	111.79	117.41 (4/2)	101.48 (2/1)
SWEDEN Jacobson & P (1/1/58)	1570.51	1588.58	1575.05	1560.43	1658.93 (11/2)	1285.32 (9/7)
SWITZERLAND SwissBankCpn.(31/12/58)	467.2	481.4	438.5	431.0	436.5 (11/9)	386.7 (3/1)
WORLD Capital Intl. (1/1/70)	—	225.0	224.8	224.4	224.9 (2/10)	184.6 (4/1)

** Saturday October 5: Japan Nikkei-Dow 12,750.66. TSE 1,023.88.

Base value of all indices are 100 except JSE Gold—255.7. JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u Unavailable.

OVER-THE-COUNTER *Nasdaq national market, closing prices, October 4*

Continued from Page 37

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

CANADA

TORONTO
Closing prices October 4

Sales	Stock	High	Low	Close	Chng
[illegible]					

MONTREAL
Closing prices October 4

Sales	Stock	High	Low	Close	Chng
[illegible]					

F—No voting rights or restricted voting rights.

AUSTRIA
1985 High	Low	Oct. 4	Price Sch.
[illegible]			

BELGIUM/LUXEMBOURG
1985 High	Low	Oct. 4	Price Frs.
[illegible]			

DENMARK
1985 High	Low	Oct. 4	Price Kr.
[illegible]			

GERMANY
1985 High	Low	Oct. 4	Price Dm
[illegible]			

SOUTH AFRICA
1985 High	Low	Oct. 4	Price Rand
[illegible]			

AUSTRALIA
1985 High	Low	Oct. 4	Price Aust. $
[illegible]			

ITALY
1985 High	Low	Oct. 4	Price Lire
[illegible]			

NETHERLANDS
1985 High	Low	Oct. 4	Price Fls
[illegible]			

SINGAPORE
1985 High	Low	Oct. 4	Price $
[illegible]			

FRANCE
1985 High	Low	Oct. 4	Price Frs.
[illegible]			

NORWAY
1985 High	Low	Oct. 4	Price Kroner
[illegible]			

HONG KONG
1985 High	Low	Oct. 4	Price H.K.$
[illegible]			

SWITZERLAND
1985 High	Low	Oct. 4	Price Frs.
[illegible]			

SWEDEN
1985 High	Low	Oct. 4	Price Kroner
[illegible]			

JAPAN
1985 High	Low	Oct. 5	Price Yen
[illegible]			

SPAIN
1985 High	Low	Oct. 4	Price Pta %
[illegible]			

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

Closing prices, October 4

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21⅞	15¼	PortGE1.90		10.	7	383	18⅝	18¼	18½	+⅛
24⅞	18⅞	PorG pf2.60		11.		2	23¼	23¼	23¼	
35⅝	30	PorG pf4.40		13.		16	33½	33¼	33¼	−¼
34⅝	29½	PorG pf4.32		13.		6	32¾	32¾	32¾	
38⅜	28	Potltch 1.56		4.3	15	1313	36	35⅝	35⅝	+½
34	22⅞	PotmEl2.16		7.5	8	149	29¼	28¾	28¾	−¼
46½	36½	PotEl pf4.50		9.8		z100	46	46	46	
41¾	32¼	PotEl pf4.04		10.		z100	40½	40½	40½	+1½
25½	18⅞	Preml s .36		1.5	18	15	23⅝	23⅜	23½	+¼
41¾	31	Primrk 2.20		5.4	8	41	41	40⅝	40¾	−½
20⅝	14¾	PrimeC			12	5001	16⅝	15⅞	15⅞	−⅝
36¾	16⅞	PrimM s.08		.3	25	338	32¾	32	32¼	−¾
59⅞	50⅝	ProctG 2.60		4.6	15	1070	56¼	55½	56¼	+¼
15	8	PrdRs s			21	54	13⅝	13⅜	13⅜	−⅛
47¼	35½	Proler 1.40		3.6	15	5	39¼	39¼	39¼	
2⅝	2	PruRC n				160	2⅛	2	2⅛	+⅛
8⅞	8	PruRt n				147	8	8	8	
24¼	17⅝	PSvCol 2		9.8	8	1205	721	20½	20½	−⅜
70	53½	PSCol pf7.15		11.		z100	68	68	68	−½
21¼	16½	PSCol pf2.10		11.		28	18⅝	18½	18⅝	
10⅛	6⅞	PSInd 1		11.	11	313	9⅛	9	9⅛	+⅛
8⅞	6⅝	PSIn pf1.08		13.		z5730	8⅝	8⅛	8¼	
8¾	3½	PSvNH			3	250	7½	7¼	7⅜	−¼
16⅞	8½	PSNH pf				z360	15	15	15	
17¼	8⅝	PNH pfB				11	15¾	15½	15¾	+⅛
24⅞	13	PNH pfC				5	23	22¾	23	+¼
22	11⅞	PNH pfD				2	19¾	19¾	19¾	
[illegible]										
22¼	18⅝	SavEIP1.60		8.2	7	58	19¾	19½	19½	+⅛
12½	10⅛	SavE pf1.28		12.		24	11¼	11	11	
9⅞	5	Savin				304	6⅝	6½	6⅝	−⅛
13¼	9¾	Savin pf1.50		12.		3	12½	12½	12½	−¼
28⅞	21¼	SCANA2.16		8.8	8	495	24½	24¼	24½	
52½	33	SchrPld.68		3.4	14	667	49⅞	49⅝	49¾	+⅛
45⅞	33⅛	Schlmb1.20		3.5	9	3176	35⅜	34⅝	34¾	−½
14⅞	8	SciAtl .12		1.0	17	448	11⅞	11½	11¾	−⅛
33	22⅝	ScoaInd78j			13	194	32½	32⅜	32⅜	
61½	52⅞	ScotFet90a		1.6	10	82	55¾	55⅜	55⅜	
44½	29⅜	ScottP 1.24		3.0	10	798	42	41⅝	41⅝	−⅜
16⅝	12½	Scottys .52		4.1	10	60	12⅞	12¾	12¾	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices October 4

OVER-THE-COUNTER

Nasdaq national market, closing prices, October 4

Continued on Page 35

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Hanging like a sword

BY COLIN MILLHAM

Ever since the Group of Five finance ministers from the major industrial nations met in New York on September 22, the threat of central bank intervention has been hanging like the Sword of Damocles over the foreign exchanges.

The Japanese have been the keenest and most vocal advocates of a weaker dollar, in an attempt to head off the strong protectionist lobby in the U.S., and the potential damage to Japanese exporters.

The IMF meeting in Seoul this week brings the finance ministers together again, and the market fears that further measures may be agreed to depress the dollar.

President Reagan is due to meet the Japanese Prime Minister later this month, and the subject of trade and the value of the dollar against the yen will be high on the agenda.

Japanese officials were at pains last week to set a target of Y200-210 for the dollar, compared with a market level of around Y240 about a month ago.

The Bank of Japan has been by far the most aggressive central bonk on the foreign exchanges, probably spending around $1.5bn to push the dollar down to its present value. This is not too far above the target range, but because the Japanese authorities have spent much more on intervention than the German Bundesbank, means the yen has risen in value against the D-mark. In the last month the D-mark has fallen from about Y84 to around Y81, and will probably touch Y80 in the near future.

On Friday the dollar touched its lowest level for more than 1½ years against the D-mark, and for over 4½ years against the yen.

£ IN NEW YORK

Oct. 4		Prev. close
£ Spot	$1.4140-1.4155	$1.4275-1.4285
1 month	0.45-0.44 pm	0.46-0.43 pm
3 months	1.15-1.12 pm	1.16-1.13 pm
12 months	2.97-2.87 pm	3.05-2.95 pm

Forward premiums and discounts apply to the U.S. dollar.

U.S. economic figures have been largely ignored, under the threat of central bank intervention.

August leading economic indicators rose by 0.7 per cent, towards the top end of the forecast range, and the July figure was revised up to 0.7 per cent from 0.4 per cent. Construction spending was extremely confusing, with the August figure rising by a much higher than expected 1.1 per cent, while July was revised to a fall of 1 per cent from a rise of 1.2 per cent.

Factory orders in August were rather disappointing, rising 0.9 per cent, against expectations of around 2 per cent. New home sales fell surprisingly by 5.6 per cent.

Friday was the most important, from the point of view of statistics, when it was hoped employment data would give a guide to economic growth. Third quarter gross national product will be revised on October 18. Last month's flash estimate was of 2.8 per cent growth, but Friday's figures were rather disappointing. A rise of 0.1 per cent in unemployment was not expected, but the rise of 128,000 on non-farm payrolls was only about half the anticipated number.

In the end U.S. statistics proved confusing, and there appeared to be little prospect of any early cut in the U.S. discount rate after last week's Federal Open Market Committee meeting. November has been suggested as a possible opportunity for a rate cut, but this will probably depend on money supply coming back within target.

As the week ended the only certainty was that the central banks did not want to see a stronger dollar, but have yet to face up to the problem of U.S. fiscal policy.

CURRENCY MOVEMENTS

Oct. 4	Bank of England Index	Morgan Guaranty Change %
Sterling	79.6	−10.7
U.S. dollar	130.0	+18.6
Canadian dollar	83.9	−8.8
Austrian schilling	118.9	+5.1
Belgian franc	92.1	−10.0
Danish Kroner	81.7	−3.8
Deutsche mark	128.3	+10.0
Swiss franc	151.6	+13.5
Guilder	118.2	+5.5
French franc	68.7	−12.6
Lire	44.8	−18.8
Yen	171.0	+24.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

OTHER CURRENCIES

Oct. 4	£	$
Arg'tina	1.1436-1.1463	0.8000-0.8010
Aus'alia	2.0065-2.0105	1.4065-1.4075
Brazil	11,293-11,362	7,900-7,940
Finland	8.0265-8.0610	5.6330-5.6380
Greece	184.15-188.15	128.55-131.24
H'kong	11.0780-11.0860	7.7630-7.7680
Iran	122.50*	86.40*
Kuwait	0.4190-0.4200	0.29420-0.29440
Lux'burg	75.80-75.90	53.55-53.65
Malay'sa	3.4690-3.4800	2.4325-2.4375
N'Z'land	2.5235-2.5335	1.7685-1.7745
Saudi Ar.	5.1980-5.2080	3.6495-3.6505
Sin'pore	3.0165-3.0270	2.1175-2.1225
S.Af. (Cm)	3.6215-3.6310	2.5380-2.5445
S.Af. (Fn)	3.9640-4.0770	2.7780-2.8570
U.A.E.	5.2325-5.2425	3.6720-3.6730

* Selling rate.

CURRENCY RATES

Oct. 4	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.747616	0.593350
U.S.$	7½	1.07096	0.847303
Canadian $	9.00	*	1.15572
Austria Sch.	4	19.6414	15.6311
Belgian Fr	9½	N A	44.8562
Danish Kr	7	10.1570	8.02354
D mark	4	2.79306	2.20875
Guilder	5	3.14702	2.49065
French Fr	9½	N/A	6.74199
Lira	15½	1889.07	1493.90
Yen	5	227.151	180.179
Norway Kr	8	8.37598	6.61532
Span'h Pta	—	171.124	135.399
Swedish Kr	10½	N/A	6.69581
Swiss Fr	4	2.28382	1.80964
Greek Dr'ch	20½	139.594	110.768
Irish Punt	13½	N/A	0.714722

* C$/SDR rate for October 3: 1.45465.

POUND SPOT—FORWARD AGAINST POUND

October 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4130-1.4360	1.4145-1.4155	0.46-0.43c pm	3.77	1.19-1.14 pm	3.29
Canada	1.9354-1.9582	1.9390-1.9410	0.60-0.50c pm	3.40	1.29-1.15 pm	2.52
Nethlnd.	4.16¾-4.21¼	4.19¼-4.20¼	2½-2c pm	5.90	6-5¾ pm	5.60
Belgium	75.01-76.06	75.80-75.90	21-16c pm	2.93	45-40 pm	2.27
Denmark	13.41½-13.63	13.46-13.47	3½-2½ore pm	2.67	9½-8½ pm	2.60
Ireland	1.2005-1.2121	1.2034-1.2044	0.34-0.21p pm	2.74	0.71-0.45 pm	1.93
W. Ger.	3.69¾-3.74½	3.72-3.73	2½-2¼pf pm	7.46	6½-6½ pm	6.71
Portugal	228½-236	229-233	10c pm-290 dis	−7.27	335-1300ds	−14.15
Spain	225¾-230	227-228	¼c pm-35 dis	−0.76	35-155 dis	−1.67
Italy	2495½-2536	2516-2517	3-6lire dis	−2.15	13-17 dis	−2.38
Norway	11.06½-11.20¾	11.06½-11.07½	½-1½ore dis	−1.08	2½-3½dis	−1.11
France	11.26½-11.42¾	11.36½-11.37½	2¼-1½c pm	1.91	2⅞-1½ pm	0.70
Sweden	11.20¾-11.35	11.24¾-11.25¾	2½-3½ore dis	−3.20	8¼-9⅞ dis	−3.31
Japan	300¼-305½	201½-302½	1.40-1.30y pm	5.36	3.78-3.65 pm	4.92
Austria	25.97-26.33	26.09-26.17	15½-13½gro pm	6.86	40½-36 pm	5.86
Switz.	3.03-3.06¼	3.05¼-3.06¼	2-1⅞c pm	7.60	5¼-5 pm	6.70

Belgian rate is for convertible francs. Financial franc 75.70-75.70. Six-month forward dollar 1.95-1.90c pm. 12-month 3.05-2.90c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

October 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4130-1.4360	1.4145-1.4155	0.46-0.43c pm	3.77	1.19-1.14 pm	3.29
Ireland†	1.1715-1.1880	1.1735-1.1745	0.15-0.05c pm	1.01	0.50-0.30 pm	1.35
Canada	1.3630-1.3675	1.3665-1.3675	0.06-0.10c dis	−0.70	0.24-0.29dis	−0.78
Nethlnd.	2.9295-2.9730	2.9665-2.9675	0.55-0.52c pm	2.18	1.71-1.68 pm	2.30
Belgium	52.80-53.65	53.55-53.65	3-4c dis	−0.79	13-15 dis	−1.05
Denmark	9.45¾-9.51¾	9.51¼-9.51¾	½-1ore dis	−0.95	1½-2 dis	−0.74
W. Ger.	2.5985-2.6370	2.6315-2.6325	0.80-0.75pf pm	3.57	2.33-2.28 pm	3.54
Portugal	162-164	162-164	50-250c dis	−11.04	375-1050ds	−17.48
Spain	159¾-161½	160½-161	50-65c dis	−4.32	175-253dis	−5.35
Italy	1758-1779	1778-1779	9-10lire dis	−6.48	25½-27 dis	−5.95
Norway	7.78¾-7.83	7.82¼-7.82¾	3-3½ore dis	−4.99	8½-9 dis	−4.48
France	7.93½-8.05	8.03¼-8.03¾	1.25-1.35c dis	−1.96	5.20-5.35dis	−2.65
Sweden	7.88¾-7.95½	7.95-7.95½	4½-5ore dis	−7.21	13-13½ dis	−6.70
Japan	211.35-213.70	213.35-213.45	0.32-0.27y pm	1.66	0.96-0.86 pm	1.71
Austria	18.27½-18.52	18.45-18.52	5-4¼gro pm	3.03	13½-11 pm	2.67
Switz.	2.1220-2.1620	2.1600-2.1610	0.73-0.67c pm	3.94	1.95-1.90 pm	3.61

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 53.50-53.60.

FINANCIAL FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mnth	3-mnth	6-mnth	12-mnth
1.4150	1.4106	1.4034	1.3958	1.3853

IMM—STERLING $s per £

	Latest	High	Low	Prev
Dec	1.4075	1.4245	1.4030	1.4185
March	1.3990	1.4140	1.3940	1.4080
June	1.3925	1.4070	1.3885	1.4015
Sept	1.3800	1.4000	1.3800	1.3955

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec	1.4075	1.4275	1.4070	1.4145
March	1.3995	—	—	1.4020
June	1.3925	—	—	1.3955

Est volume 306 (36)
Previous day's open int 2,676 (2,667)

LIFFE—DEUTSCHE MARKS DM125,000 $ per DM

	Close	High	Low	Prev
Dec	0.3840	0.3874	0.3844	0.3814
March	0.3872	—	—	0.3845
June	0.3911	—	—	0.3885

Est volume 97 (82)
Previous day's open int 482 (440)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	75-00	75-27	74-27	75-11
March	73-28	74-21	73-22	74-05
June	72-24	72-17	72-21	73-04
Sept	71-24	72-15	71-21	72-02
Dec	70-26	71-01	70-23	71-04
March	69-31	70-01	69-30	70-09
June	69-02	—	—	69-17
Sept	—	—	—	—
Dec	67-29	—	—	68-07
March	67-11	—	—	67-31
June	—	—	—	—

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	92.87	93.05	92.84	92.89
March	92.54	92.71	92.51	92.55
June	92.17	92.28	92.13	92.19
Sept	91.83	91.91	91.81	91.86
Dec	91.53	91.61	91.52	91.56
March	91.27	91.35	91.28	91.30
June	91.01	91.09	91.00	91.04
Sept	90.79	—	—	90.79

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	92.02	92.21	92.02	92.09
March	91.68	91.82	91.68	91.70
June	91.29	—	91.29	91.32
Sept	90.92	—	—	90.96

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	91.73	91.90	91.71	91.74
March	91.35	91.51	91.31	91.37
June	90.98	91.13	90.96	90.99
Sept	90.60	90.76	90.60	90.62
Dec	90.26	90.42	90.26	90.29
March	89.94	90.10	89.94	89.97
June	89.65	89.78	89.65	89.67
Sept	89.37	89.52	89.37	89.40

LIFFE EURODOLLAR OPTIONS $1m points of 100%

Strike Price	Calls—Last Dec	Mar	June	Vol	Puts—Last Dec	Mar	June	Vol
90.00	1.82	1.55	1.35	—	0.00	0.09	0.27	—
90.50	1.33	1.13	0.99	—	0.01	0.17	0.41	—
91.00	0.87	0.77	0.66	—	0.05	0.31	0.60	—
91.50	0.47	0.47	0.44	—	0.15	0.51	0.86	100
92.00	0.19	0.25	0.25	90	0.37	0.79	1.17	1
92.50	0.05	0.12	—	10	0.73	1.16	—	—
93.00	0.01	—	—	—	1.19	—	—	—

Previous day's open int. Calls 1,223, Puts 1,987

LIFFE £/$ OPTIONS £25,000 (cents per £1)

Strike Price	Calls—Last Dec	Mar	June	Vol	Puts—Last Dec	Mar	June	Vol
1.20	21.74	21.74	21.74	12	0.12	0.88	1.94	—
1.25	16.74	16.74	17.46	—	0.38	1.70	3.11	—
1.30	11.78	12.81	14.04	40	1.03	2.96	4.69	20
1.35	8.02	9.68	11.08	48	2.27	4.74	6.73	25
1.40	5.05	7.06	8.57	20	4.30	7.09	9.22	4
1.45	2.82	4.95	6.50	27	7.17	10.00	12.15	—
1.50	1.39	3.38	4.86	38	10.80	13.41	15.50	40

Previous day's open int. Calls 8,151, Puts 12,805.

LONDON SE £/$ OPTIONS £12,500 (cents per £1)

Strike Price	Calls—Last Dec	Mar	June	Vol	Puts—Last Dec	Mar	June	Vol
1.20	22.50	22.50	22.80	—	0.25	0.90	1.90	325
1.25	17.50	17.80	18.20	—	0.50	1.50	3.00	25
1.30	13.00	13.80	14.60	—	1.00	2.70	4.40	8
1.35	8.90	10.20	11.30	21	2.10	4.30	6.10	8
1.40	5.70	7.40	8.50	101	4.00	6.60	8.30	6
1.45	3.45	5.10	6.70	40	6.70	9.30	10.80	5
1.50	1.70	3.50	4.80	10	10.00	12.50	14.00	—

Previous day's open int. Calls 8,164, Puts 8,169.

PHILADELPHIA SE £/$ OPTIONS £12,500 (cents per £1)

Strike Price	Calls—Last Dec	Mar	June	Vol	Puts—Last Dec	Mar	June	Vol
1.20	—	—	—	—	0.15	—	—	10
1.25	17.60	—	—	2	0.40	—	—	2
1.30	—	—	—	—	0.95	—	—	512
1.35	—	—	—	—	1.95	—	—	313
1.40	5.40	—	—	5	4.10	—	8.00	886
1.45	3.00	5.20	—	105	6.30	—	—	250
1.50	1.50	—	—	30	—	—	—	—

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
Dec	113-19	113-25	113-12	113-08
March	113-21	113-18	113-18	113-10
June	—	—	—	112-10
Sept	112-21	—	—	112-10
Dec	112-21	—	—	112-10

Est. volume 2,153 (454)
Previous day's open int. 3,256 (3,152)
Basis quote (clean cash price of 13½% Treasury 2004-08 less equivalent price of near futures contract) −6 to +4 (32nd).

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev
Dec	96-28	96-36	96-27	96-25
March	96-44	—	—	96-41

Est. volume 934 (308)
Previous day's open int. 1,325 (1,258)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
Dec	89.30	89.32	89.26	89.25
March	89.67	89.67	89.64	89.62
June	89.68	89.70	89.65	89.65
Sept	89.67	89.68	89.65	89.61
Dec	89.64	—	—	89.61

Est. volume 1,591 (1,285)
Previous day's open int. 8,668 (6,371)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
Dec	132.20	132.20	130.90	130.85
March	132.95	—	—	131.60

Est. volume 181 (165)
Previous day's open int. 1,238 (1,245)

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
Dec	91.82	91.89	91.76	91.76
March	91.42	91.51	91.41	91.38
June	91.08	91.12	91.01	91.01
Sept	90.73	90.75	90.68	90.65
Dec	90.40	—	—	90.32

Est. volume 6,109 (4,933)
Previous day's open int. 19,651 (19,033)

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	75-09	75-30	75-05	75-09
March	74-03	—	—	74-04

Est. volume 4,228 (3,536)
Previous day's open int. 3,142 (2,571)

EXCHANGE CROSS RATES

Oct. 4	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.415	3.725	302.0	11.37	3.058	4.198	2517	1.940	75.85
$	0.707	1.	2.632	213.4	8.035	2.161	2.967	1779	1.371	53.60
DM	0.268	0.380	1.	81.07	3.052	0.821	1.127	675.7	0.521	20.36
YEN	3.311	4.695	12.33	1000.	37.66	10.12	13.90	8334.	6.424	251.2
F Fr.	0.880	1.245	3.276	265.6	10.	2.689	3.692	2214.	1.706	66.71
S Fr.	0.327	0.463	1.218	98.77	3.719	1.	1.373	823.2	0.635	24.81
H Fl.	0.238	0.337	0.887	71.95	2.709	0.728	1.	599.6	0.462	18.07
Lira	0.397	0.562	1.480	120.0	4.517	1.215	1.668	1000.	0.771	30.14
C $	0.515	0.729	1.920	155.7	5.861	1.576	2.164	1297	1.	39.10
B Fr.	1.318	1.866	4.911	398.2	14.99	4.031	5.534	3318.	2.558	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.4150	1.4106	1.4034	1.3958	1.3853
D-Mark	3.7250	3.7024	3.6629	3.6137	3.5207
French Franc	11.37	11.3519	11.3116	11.3714	11.4354
Swiss Franc	3.0575	3.0381	3.0062	2.9654	2.8853
Japanese Yen	302.0	300.64	298.29	295.56	290.12

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.8562	+0.05	+0.91	±1.5425
Danish Krone	8.12857	8.02354	−1.29	−0.43	±1.6421
German D-mark	2.23840	2.20875	−1.32	−0.46	±1.1455
French Franc	6.86402	6.74199	−1.78	−0.92	±1.3654
Dutch Guilder	2.52208	2.49065	−1.25	−0.39	±1.5162
Irish Punt	0.724578	0.714722	−1.36	−0.50	±1.6673
Italian lira	1520.60	1493.90	−1.76	−1.57	±4.0856

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EURO-CURRENCY INTEREST RATES

Oct. 4	Short term	7 Days notice	Month	Three Months	Six Months	One Year
Sterling	11⅞-12⅛	11⅞-12⅛	11⅞-11⅞	11½-11⅝	11¼-11⅜	10⅞-11⅛
U.S. Dollar	7¾-7⅞	7⅝-7¾	7⅞-8	8-8⅛	8⅛-8¼	8⅜-8½
Can Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B.Fr.(Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $ (Sing)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: two years 9⅛-9¼ per cent; three years 9½-10 per cent; four years 10-10¼ per cent; five years 10¼-10½ per cent nominal. Short-term rates are call for U.S. Dollars and Japanese Yen; others, two days' notice.

BASE LENDING RATES

	%
A.B.N. Bank	11½
Allied Dunbar & Co.	11½
Allied Irish Bank	11½
American Express Bk.	11½
Henry Ansbacher	11½
Amro Bank	11½
Associates Cap. Corp.	12
Banco de Bilbao	11½
Bank Hapoalim	11½
BCCI	11½
Bank of Ireland	11½
Bank of Cyprus	11½
Bank of India	11½
Bank of Scotland	11½
Banque Belge Ltd.	11½
Barclays Bank	11½
Beneficial Trust Ltd.	12½
Brit. Bank of Mid. East	11½
■ Brown Shipley	11½
CL Bank Nederland	11½
Canada Permanent	11½
Cayzer Ltd.	11½
Cedar Holdings	12
■ Charterhouse Japhet	11½
Choulartons	12
Citibank NA	11½
Citibank Savings	¶12¼
City Merchants Bank	11½
Clydesdale Bank	11½
C. E. Coates & Co. Ltd.	12
Comm. Bk. N. East	11½
Consolidated Credits	11½
Continental Trust Ltd.	11½
Co-operative Bank	*11½
The Cyprus Popular Bk.	11½
Duncan Lawrie	11½
E. T. Trust	12
Exeter Trust Ltd.	12
Financial & Gen. Sec.	11½
First Nat. Fin. Corp.	12½
First Nat. Sec. Ltd.	12½
■ Robert Fleming & Co.	11½
Robert Fraser & Ptns.	12
Grindlays Bank	‡11½
■ Guinness Mahon	11½
■ Hambros Bank	11½
Heritable & Gen. Trust	11½
■ Hill Samuel	§11½
C. Hoare & Co.	†11½
Hongkong & Shanghai	11½
Johnson Matthey Bkrs.	11½
Knowsley & Co. Ltd.	12
Lloyds Bank	11½
Edward Manson & Co.	12½
Meghraj & Sons Ltd.	11½
Midland Bank	11½
■ Morgan Grenfell	11½
Mount Credit Corp. Ltd.	11½
National Bk. of Kuwait	11½
National Giro Bank	11½
National Westminster	11½
Northern Bank Ltd.	11½
Norwich Gen. Trust	11½
People's Trust	12½
PK Finans Intl. (UK)	12
Provincial Trust Ltd.	12½
R. Raphael & Sons	11½
Roxburghe Guarantee	12
Royal Bank of Scotland	11½
Royal Trust Co. Canada	11½
■ J. Henry Schroder Wagg	11½
Standard Chartered	11½
TCB	11½
Trustee Savings Bank	11½
United Bank of Kuwait	11½
United Mizrahi Bank	11½
Westpac Banking Corp.	11½
Whiteaway Laidlaw	12
Yorkshire Bank	11½

■ Members of the Accepting Houses Committee. * 7-day deposits 8.00%. 1-month 8.50%. Top Tier—£2,500+ at 3 months' notice 11.25%. At call when £10,000+ remains deposited. † Call deposits £1,000 and over 9.25% gross. ‡ 21-day deposits over £1,000 8.00% gross. § Mortgage base rate. ¶ Demand deposits 8.00%. Mortgage 13%.

MONEY MARKETS

No pressure for change

UK clearing banks base lending rate 11½ per cent since July 30.

It was a very dull week in London on the money market, with sterling's performance blocking any move towards change. By the end of the week hope had all but died that the Conservative Party conference this week would bring about a cut in bank base rates, but with the dollar very soft there was also no upward pressure on rates.

Provisional UK money supply and bank lending figures will be published tomorrow, but are not expected to herald an interest rate cut. Sterling M3 will remain above target, and whatever the figure the authorities have pursued an exchange rate policy in determining the level of interest rates, since the pound almost touched parity with the dollar in February.

Sterling is strong enough against the dollar, but in recent weeks has looked vulnerable against other major currencies. Rumours about the authorities looking for sterling to join the EMS at a reduced value, after pressure on Britain at the Group of Five meeting in New York, have tended to fade but the market has also speculated that there would be little official resistance to a fall of the pound against the currencies of Britain's major competitors in Europe and Japan. Problems over Opec quotas, and the threat of falling oil prices has proved another factor undermining confidence in sterling.

With the pound failing to benefit fully from the decline of the dollar the market see little hope of any early reduction in interest rates. But with another Opec meeting ending inconclufurther downward pressure on the dollar after this week's IMF meeting the mood could change fairly quickly.

MONEY RATES

NEW YORK (4 pm)

Prime rate	9½
Broker loan rate	8¾
Fed funds	7¹¹⁄₁₆
Fed funds at intervention	7¹³⁄₁₆

Treasury Bills & Bonds

One month	6.83
Two month	6.97
Three month	7.22
Six month	7.63
One year	7.96
Two year	8.86
Three year	9.20
Four year	9.55
Five year	9.75
Seven year	10.18
10 year	10.34
30 year	10.61

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 4	Sept. 27		Oct. 4	Sept 27
Bills on offer	£100m	£100m	Top Accepted rate of discount	10.9701%	11.0303
Total of applications	£389m	£352m	Average rate of discount	10.9650%	11.0069%
Total allocated	£100m	£100m	Average yield	11.27%	11.32%
Minimum accepted bid	£97.265	£97.25	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	100%	76%			

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct. 4)

Three months U.S. dollars	
bid 8 1/16	offer 8 3/16

Six months U.S. dollars	
bid 8 1/8	offer 8 1/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Oct. 4	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	9½-12¼	11⅞-12¼	11⅞-11⅞	11½-11⅝	11⅛-11⅜	11-11⅛
Sterling CDs	—	—	11⅞-11¾	11⅝-11⅝	10⅞-11⅛	10¾-10⅞
LocalAuthorityDepos	11⅞-12	11¾	11⅞	11½	11⅛	11
Local Author'y Bonds	—	—	12⅛	11⅞	11⅛	11⅛-11¼
Discount Mkt Depos.	9-12	11¾	11¾	11	11	—
Company Depos	12-12⅛	12-12⅛	11⅞	11⅝	—	—
Finance Hse Depos	—	—	11⅞	11⅛	11¼	11⅛
Treasury Bills (Buy)	—	—	11⅝	11	—	—
Bank Bills (Buy)	—	—	11⅜	11⅛	10⅞	—
Fine Trade Bills (Buy)	—	—	12	11¾	11⅛	—
Dollar CDs	—	—	7.85-7.95	7.95-8.05	8.05-8.15	8.35-8.45
SDR Linked Depos	—	—	7⅛-7¼	7⅛-7⅛	7⅛-7⅛	8-8¼
ECU Linked Depos	—	—	8⅝-8⅞	8¾-8⅞	8¾-8⅞	8⅞-9

Treasury Bills (sell): one month 11¹¹⁄₃₂ per cent; three-month 10⅞ per cent. Bank Bills (sell): one-month 11¹¹⁄₃₂ per cent; three-month 11⅟₃₂-11¼ per cent. Treasury Bills: Average tender rate of discount 10.9650 per cent. ECGD Fixed Finance IV: September 4 to October 1 (inclusive): 11.587 per cent. Local authority and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from October 1 1985. Bank Deposit Rates for sums at seven days' notice 6.25-6.625 per cent (net). Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent three-six months 11¼ per cent six-nine months 11¼ per cent; nine-12 months 11 per cent. Under £100,000 10¾ per cent from October 2. Deposits held under Series 5 11 per cent. Deposits withdrawn for cash 7½ per cent.

WEEKLY CHANGE IN WORLD INTEREST RATES

	Oct. 4	change		Oct. 4	change
LONDON			NEW YORK		
Base rates	11½	Unch'd	Prime rates	9½	Unch'd
7 day interbank	12⅛	+⅛	Federal funds	7¾	−⅛
3mth interbank	11⅛	Unch'd	3 Mth. Treasury Bills	7.22	−0.03
Treasury Bill Tender	10.9650	−0.8419	6 Mth. Treasury Bills	7.64	+0.25
Band 1 Bills	11⅜	Unch'd	3 Mth. C D	7.87	+0.47
Band 2 Bills	11⅜	Unch'd			
Band 3 Bills	11¼	Unch'd	FRANKFURT		
Band 4 Bills	11⅛	Unch'd	Lombard	5.5	Unch'd
3 Mth. Treasury Bills	11	−⅛	One Mth. Interbank	4.65	+0.05
1 Mth. Bank Bills	11⅜	+⅛	Three month	4.65	Unch'd
3 Mth. Bank Bills	11⅛	+⅛			
			PARIS		
TOKYO			Intervention Rate	9⅛	Unch'd
One month Bills	6.40685	−0.1875	One Mth. Interbank	9⅛	Unch'd
Three month Bills	6.40625	Unch'd	Three month	9½	Unch'd
BRUSSELS			MILAN		
One month	8⅞	Unch'd	One month	14⅛	Unch'd
Three month	9⅛	−⅛	Three month	14	−⅛
AMSTERDAM			DUBLIN		
One month	5⅝	+⅛	One month	9⅜	−⅛
Three month	5⅝	+⅛	Three month	9⅝	−⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

Oct. 4	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard In'v'ntion
Frankfurt	4.6-4.7	4.6-4.7	4.6-4.7	4.6-4.7	4.65-4.75	5.5
Paris	9⅛	9⅜-9½	9⅜-9½	9⅛-9⅛	9½-9⅝	9⅜
Zurich	7⅛-1⅛	4⅛-4¼	—	4½-4⅝	—	—
Amsterdam	5¾-5⅛	5¾-5⅛	—	5¾-5⅞	5¾-5⅞	—
Tokyo	6.5315	6.40685	6.40625	6.40625	—	—
Milan	14¼-14⅛	13⅞-14¼	—	13¾-14¼	—	—
Brussels	7.10	8⅛-8⅛	—	9⅛-9⅛	—	—
Dublin	8-8⅛	9¼-9⅛	9⅜-9⅝	9½-9¾	9⅞-10⅛	—